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COMPANY PROFILE

Michael Hill International operates Michael Hill Jeweller - a retail jewellery chain catering principally for the middle section of the jewellery market, with 143 stores between Australia, New Zealand and Canada as at 30 June 2004. The Company also specialises in higher priced diamond jewellery. The Company had its origins in 1979 when Michael Hill opened the first store in the New Zealand town of Whangarei, some 160 kilometres north of Auckland.

A unique retail jewellery formula that included dramatically different store designs, a product range devoted exclusively to jewellery and almost saturation levels of high

impact advertising elevated the Company to national prominence and record sales.

The Company grew rapidly, expanding to 10 stores by 1987 - the same year it was listed on the New Zealand stock exchange. 1987 also saw expansion into Australia, opening the first store in August, in the Brisbane suburb of Indooroopilly.

Today the group employs over 1,600 full and part time staff in retailing, manufacturing and administration. It has approximately 3,400 shareholders and remains the most profitable publicly listed retail jeweller in Australia/New Zealand.

OUR OVERALL STRATEGIC GOAL

To grow shareholder wealth over time through our philosophy of controlled profitable growth.

OUR MISSION

Our mission is to be the most people focused jeweller in the world.





OUR VALUES & GUIDING PRINCIPLES

Customer satisfaction is our passion, our love and our life

- Care for every customer, as you would like to be cared for yourself.
- Exceed their expectations - whatever it takes!
- Remember it's not a sale. It's a celebration!
- We are all living advertisements for our brand. We create the magic.
- Create lifetime customers through the highest standards in customer service.
- Customer complaints are an opportunity to win a customer for life.

Our people make our company

- Employ exceptional people for the gifts they bring us - energy, passion, willingness, intelligence and enthusiasm.
- Develop, coach and empower them to achieve their full potential.
- Create an environment that encourages excitement, fun, and open communication.
- Celebrate and reward success.
- Endeavour to promote from within.
- Our team's success ensures the company's success.

Encourage innovation and use common sense

- Push the limits - if there is a better way, find it!
- Keep our systems relevant and simple.
- Challenge bureaucracy and red tape.
- Innovation is often born from our mistakes and the lessons learned - have a go!
- Embrace change – it brings opportunities.
- Speak up! Constructive questioning of our methods, policies, and thinking is healthy.

Take ownership of your business

- Act and think as if this was your own business.
- Make decisions in the best interests of your customers and your team.
- Be responsible for the company's profitability and growth.
- Search for great ideas and share them across the company.

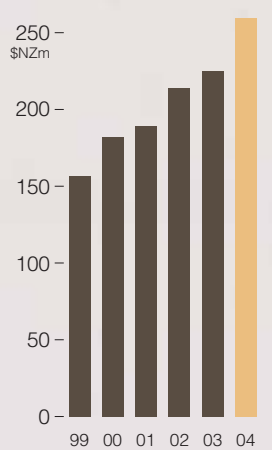
Be honest and ethical

- Always act honestly and ethically displaying the upmost integrity.
- Protect and enhance our brands integrity.
- Show mutual respect in all dealings with people in and outside the company.
- Compete fairly and professionally at all times.

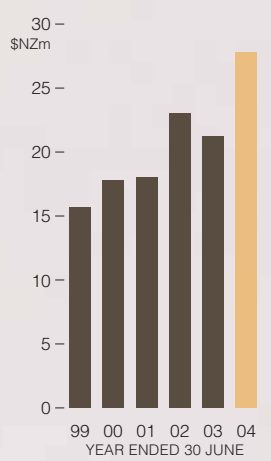


PERFORMANCE HIGHLIGHTS

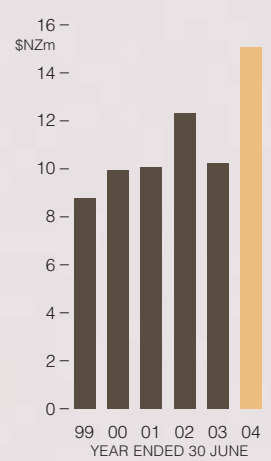
- Group revenue up 15.6% to \$259,777,000
- Group Surplus after tax up 30.2% to \$15,060,000
- Net operating cash flow up 265% to \$24,779,000
- 28% return on average Shareholders' funds
- Dividend for year up 23.5% to 21 cents per share
- 9 new stores opened in Australia
- 46.7% increase in contribution from Australian company
- Canadian stores show encouraging progress



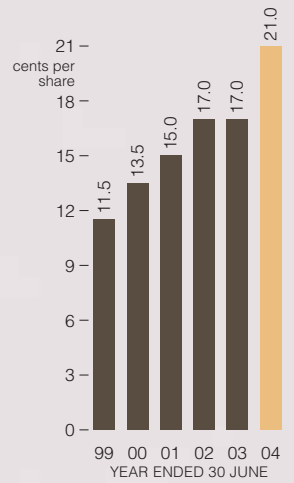
SALES REVENUE UP 15.6%



EARNINGS BEFORE INTEREST & TAX & UNALLOCATED EXPENSES (BEFORE ABNORMALS) UP 31%



NET SURPLUS AFTER TAX UP 47% (BEFORE ABNORMALS)



ORDINARY DIVIDEND UP 23.5%

Key Facts

YEAR ENDED 30 JUNE, NZ\$000's UNLESS STATED **2004** **2003** % change

TRADING RESULTS

• Group revenue	259,777	224,802	+15.6%
• Earnings before interest and tax and unallocated expenses (before abnormals)	27,803	21,219	+31.0%
• Group surplus after tax (before abnormals)	15,060	10,244	+47.0%
- First half	10,912	7,525	+45.0%
- Second half	4,148	2,719	+52.5%
• Group surplus after tax (after abnormals)	15,060	11,570	+30.2%
• Net cash from operating activities	24,779	6,789	+265%

FINANCIAL POSITION AT YEAR END

• Issued and paid up capital, 38,668,600 ordinary shares	8,078	7,712	+4.7%
• Total shareholders' funds	57,607	50,048	+15.1%
• Total assets	122,831	109,228	+12.5%
• Net debt	26,587	40,177	-31.0%
• Capital expenditure - cash	6,409	10,313	-37.8%

NUMBER OF STORES 30 JUNE

• New Zealand	46	46
• Australia	93	84
• Canada	4	4
Total	143	134

DISTRIBUTION TO SHAREHOLDERS

• Dividends - including final dividend		
- Per ordinary share	21.0¢	17.0¢
- Times covered by surplus after tax	1.86	1.77
• Special Dividend - paid 14 October 2002	-	20.0¢

SHARE PRICE

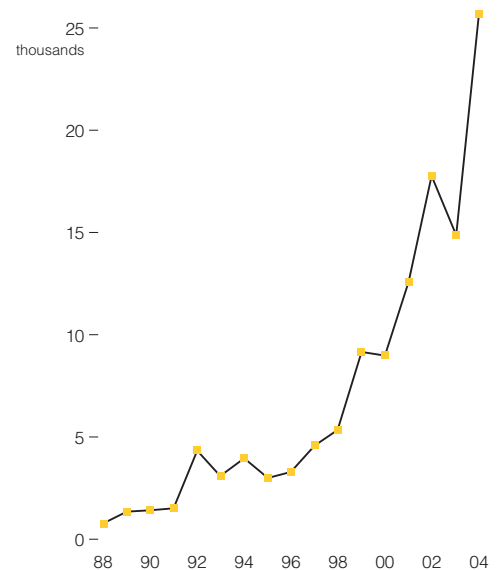
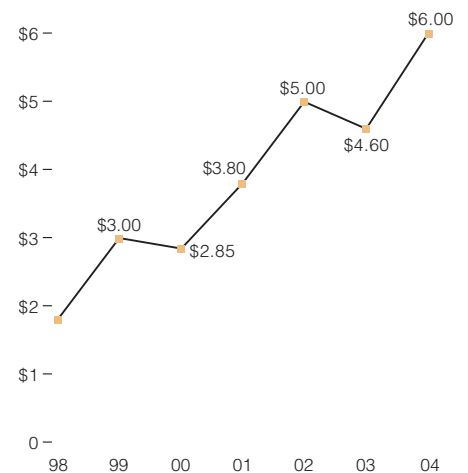
30 June	\$6.00	\$4.60
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KEY DATA PER SHARE

• Earnings before abnormal items	39.07¢	26.6¢
• Earnings after abnormal items	39.07¢	30.0¢

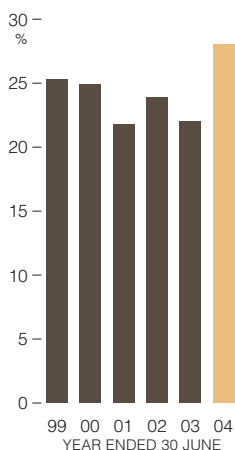
KEY MEASURES

• Same store sales up		
- Australia	9.8%	5.7%
- New Zealand	1.2%	1.0%
- Canada	45%	-
• Return on average shareholders' funds	28%	22%
• Interest cover (times)	8.8	7.2
• Equity Ratio	46.9%	45.8%
• Current ratio	4.3:1	5.4:1

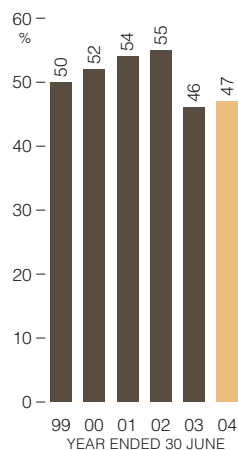


VALUE OF \$1000 ON LISTING

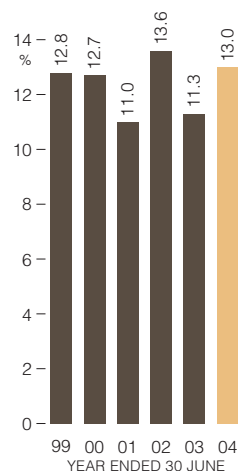
ASSUMES ALL DIVIDENDS REINVESTED. COMPOUND ANNUAL GROWTH RATE OF 21%. NZ\$1000 INVESTED IN JULY 1987 WORTH \$25,667 AS AT 30 AUGUST 2004.



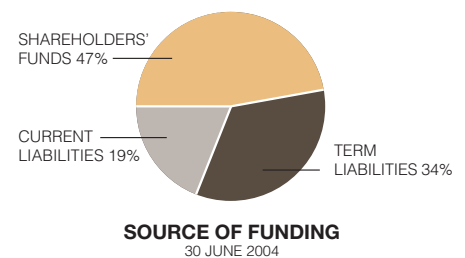
RETURN ON AVERAGE SHAREHOLDERS' FUNDS 28%



EQUITY RATIO 47%



RETURN ON AVERAGE ASSETS 13.0%



A photograph of the interior of a Michael Hill Jeweller store. The store features a large, illuminated sign at the top that reads "Michael Hill" in a bold, white, sans-serif font, with "JEWELLER" in a smaller font below it. The store is filled with glass display cases containing jewelry. Several staff members in black uniforms are visible, interacting with customers. The store has a modern, clean aesthetic with warm lighting and a tiled floor.

Michael Hill

JEWELLER

CHAIRMAN'S REVIEW

"With endless opportunities ahead, the future and our vision is clear. We must keep the formula simple, stick with what we know and do best and not deviate from controlled profitable growth. THE FUTURE PROSPECTS FOR MHI LOOK VERY EXCITING INDEED."



MICHAEL HILL

Dear Shareholders,
 It has been a very satisfactory year with profit up 30.2% to \$15,060,000 and if you adjust for last years one off sale of our Australian Head Office building, it would be 47%, giving our shareholders a 28% return on average shareholders funds for the year and an enviable 24.3% average return after tax for the last six years.

Our main goals for the year were to achieve group revenue of \$247 million, an after tax operating profit of \$12.8 million and to continue the trial of the Michael Hill brand into Canada. We comfortably achieved both the revenue and profit targets, and our Canadian expansion looks very encouraging.

This last year we have made major changes in our structure so that in the future we will support large numbers of stores without disruption. Many of the ways we did business needed to be strengthened and simplified. It was not efficient to have two support centres and we have therefore dramatically downsized the Whangarei office. Manufacturing in Whangarei will still continue. By pulling together teams that in the past have worked apart we have increased our efficiencies and communication. The economic improvement in these moves will become apparent in future results.

Canada was our other big focus as we needed the 4 stores initially opened to work. We have high expectations and were not prepared to open more stores until we were assured these stores would be profitable. With same store sales up 45 %, we are confident now with the future and will open a further 4 stores in this current financial year. I get the same vibes as when we opened our first 4 stores in Australia where we now have 93 stores. Canada has as many opportunities for us as Australia.

The value of our company continues to grow year upon year. The share price has increased 30% to \$6.00 in the 12 months ended 30 June 2004 and our dividend payout of 21 cents per share is up 23.5% on the previous year.

I would like to thank my board for their valuable contributions. We all think as a team and draw off the diverse experiences we all have to guide us forward. CEO Mike Parsell has once again performed beyond expectations. As in all great companies, we are as good as our leaders. Congratulations Mike.

The group's balance sheet is strong with an equity ratio of 46.9% (2003- 45.8%), and this provides us with a very solid platform for our future growth plans.

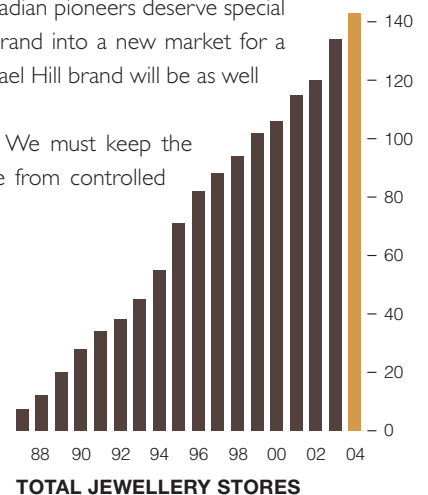
This year we opened 9 new stores – all in Australia, bringing our total number of stores operating to 143 at 30 June 2004. In the current financial year, a further 15 new stores are targeted across the group, including the four new stores in Canada.

In summary, it has been an excellent year. Our people have again performed exceptionally well and I congratulate all our staff in Australia, New Zealand and Canada. Our Canadian pioneers deserve special mention. They have done exceptionally well in taking the Michael Hill brand into a new market for a second year and I am delighted with their achievements. In time the Michael Hill brand will be as well known in Canada as it is in Australia and New Zealand.

With endless opportunities ahead, the future and our vision is clear. We must keep the formula simple, stick with what we know and do best and not deviate from controlled profitable growth.

The future prospects for MHI look very exciting indeed.

Michael Hill
 Chairman



Chief Executive Officer's REVIEW OF OPERATIONS

A REVIEW OF THE PRIORITIES FROM LAST YEAR

PRIORITIES	RESULTS
<p>ESTABLISHING CANADA</p> <p>To establish our Canadian business as a viable model for expansion.</p>	<p>Sales volume and other important key performance indicators were reached. Further store openings now planned.</p>
<p>AUSTRALIAN EXPANSION</p> <p>To open an additional 10 stores within our current markets.</p>	<p>A further nine stores were opened during the financial year.</p>
<p>SAME STORE SALES GROWTH</p> <p>To continue to grow our same store business through a strong focus on our people, our customers and our brand.</p>	<p>Same store sales grew by 9.8% in Australia, 1.2% in New Zealand and 45% in Canada.</p>
<p>MERCHANDISE AND SUPPLY CHAIN SYSTEMS</p> <p>To further improve our merchandise planning, management and logistics systems to allow us to be more streamlined and efficient with replenishment of inventory.</p>	<p>Inventory levels were managed more efficiently this year. This was reflected in our return on assets improving from 11.2% to 13%. A review of our logistics resulted in consolidation of our New Zealand and Australia warehouses into one in Brisbane.</p>
<p>IMPROVING MERCHANDISE RANGES</p> <p>To deliver improved merchandise ranges in the stores to assist in building same store sales and margins.</p>	<p>Diamond ring and gold ranges were overhauled in Australia and New Zealand. In Canada the merchandise ranges were rebuilt as a result of our experiences in the market. Strong same store sales increases were achieved.</p>
<p>LEVERAGE NEW GROUP STRUCTURE</p> <p>To continue to organise the business structure to deliver more value across the group allowing us to grow more effectively.</p>	<p>The management and support teams were centralised to Brisbane. This will result in a simple efficient structure going forward with a strong focus on growth.</p>



MIKE PARSELL, CEO

OVERVIEW of the financial year

We are very pleased to be able to report a record profit this year. The result is a fantastic achievement and I thank our entire team, who have contributed.

The highlights of the year include a very strong performance from our Australian retail division, and our Canadian operation reaching a level of performance which gives us confidence to push forward with the opening of another four stores in the current financial year.

This year we opened nine new stores across the group and refurbished a further 14 stores at a total cost of NZ\$2,301,000. Our focus, as always, was to increase the performance of our existing stores. This strategy has paid off with strong improvements in earnings from our existing store base and all new stores performing to, or exceeding expectations.

Behind the scenes, a great deal of change has occurred as we continue to reorganise the group in preparation for further expansion overseas.

With the company clearly focused on our vision for international growth some very difficult decisions were made during the year. In order to provide the most effective support structure to assist the company in achieving our international growth plans, we consolidated our Australasian support teams together in our Brisbane office. This has resulted in the downsizing of our office in Whangarei and 28 employees were made redundant. All those affected were offered alternative positions in other areas of the business or redundancy packages including career transition assistance, and external training programs. A provision of \$705,000 before tax was made for this and other associated costs in our result.

This move will have a very positive effect by allowing us to share our vision more effectively within our support teams and by ensuring all our energy is focused on the future and on achieving our goals.

We made very good progress during the year in the logistics area of the business. The company is now able to service all its Australasian stores from one central distribution centre in Brisbane. This will mean the company will be able to reduce the amount of inventory previously held in two separate warehouses and better manage out of range stocks and the replenishment of fast selling lines. This was a complicated model to establish and involved substantial systems development. However we are confident that the long term benefits will more than compensate for the effort involved in establishing these systems.

We also conducted a complete review of

our advertising during the year and our brand communication was updated. This included new imagery, music, and logo device. This was done to improve the recall of our advertising and to further strengthen our brand equity. Our aim over time is to continue to lift our brand awareness which

in turn will help us to improve sales, and improve margins by building a stronger emotional bond with our customers.

Overall a 47% lift in operating profit, and a 28% return on shareholders funds is a solid result and reflects many of the initiatives put in place by the team over the past two years.

AUSTRALIA performs beyond expectations

OPERATING RESULTS

AUSTRALIA (NZ \$'000)	2004	2003	2002	2001	2000	1999	1998
Revenue	167,206	138,710	133,462	120,854	118,878	100,340	90,409
Earnings before interest & tax	18,160	12,377	12,879	10,354	10,678	8,663	7,158
As a % of revenue	10.9%	8.9%	9.6%	8.6%	9.0%	8.6%	7.9%
Average assets employed	75,350	69,346	64,064	56,589	48,704	42,516	35,820
Return on assets	24.1%	17.8%	20.1%	18.3%	21.9%	20.4%	20.0%
Number of stores	93	84	77	74	66	64	58
Exchange rate for profit translation	0.88	0.89	0.82	0.79	0.80	0.84	0.83

Our Australian operation has enjoyed an exceptional year: In Australian dollars, sales increased 19.2% to \$147,141,000 and same store sales increased by 9.8%. Earnings before interest and tax (EBIT) in Australian dollars improved 45% to A\$15,980,000 and reached 10.9 % of sales (2003-8.9%).

The result reflected a combination of several strategies that were implemented during the year and buoyant trading conditions in the Australian market.

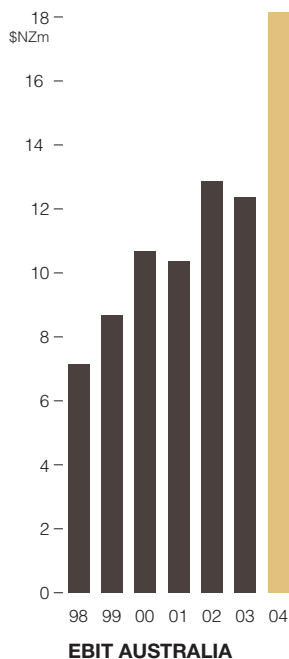
Last year we reported on the additional costs of adjusting our sales professionals' bonus schemes. This impacted negatively on the 2002/03 result but was implemented to reward top performers, to encourage higher levels of productivity and to help reduce staff turnover. This was identified as being strategically important to our future performance, because the retention of high performing staff underpins our ability to continue to deliver same store sales growth.

I am pleased to report staff turnover in Australia reduced significantly over the year

and we attribute much of the same store sales growth to this strategy.

A further nine new stores were opened in Australia during the year. These were in the following areas:

- LISMORE in Northern New South Wales opened in July 2003.
- NORTH LAKES in Brisbane opened in August 2003.
- KARRINYUP in Perth opened October 2003.
- WHITFORD CITY in Perth opened in October 2003.
- WARWICK GROVE in Perth opened in November 2003.
- BROADMEADOWS in Melbourne opened in November 2003.
- HOBART CBD in Tasmania opened in December 2003.
- BEENLEIGH MARKET PLACE in Brisbane opened in April 2004.
- GEELONG CENTRAL in Geelong opened in May 2004.



In total there were 93 stores open in Australia as at 30 June, 2004.

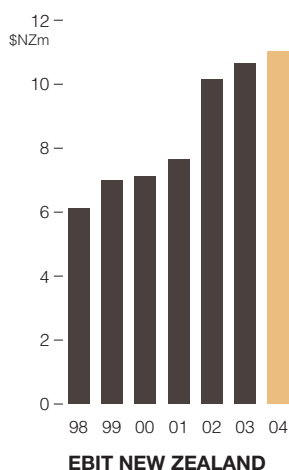
Even with our expansion, we have still to reach full scales of economy and market penetration in Victoria, Western Australia, and Tasmania. As these markets grow we will be able to increase our levels of advertising and therefore increase our brand

awareness, which will result in increased sales. We have still to enter the South Australian market and feel comfortable that at least another 50 stores can be opened across the country in the next five years. This provides the group with solid growth prospects from the Australian operation in the years to come.

NEW ZEALAND bounces back

OPERATING RESULTS

NEW ZEALAND (NZ \$'000)	2004	2003	2002	2001	2000	1999	1998
Revenue	86,711	83,784	80,643	68,314	63,105	56,600	50,845
Earnings before interest & tax	11,009	10,644	10,134	7,643	7,120	7,002	6,117
As a % of revenue	12.7%	12.7%	12.6%	11.2%	11.3%	12.4%	12.0%
Average assets employed	34,127	29,404	28,935	29,818	30,569	25,615	23,520
Return on assets	32.2%	36.2%	35.0%	25.6%	24.5%	27.3%	26.0%
Number of stores	46	46	43	41	40	38	36



New Zealand traded well through a period of substantial change. After a very difficult first quarter, where sales finished well down on the previous period, the company bounced back and finished the year with a positive result.

Sales for the year increased 3.4% to \$86,711,000 and EBIT improved 3.4% to \$11,009,000.

No new stores were added during the year, as our

focus was on improving the existing store business. We made a number of senior management changes during the year and this combined with the streamlining of the support office has meant the retail operation has had to cope with a significant amount of change. Going forward, we have renewed our focus on the basics within our stores and this year we are

concentrating all efforts on our people through improved

training and development, better utilisation of our sales management systems and improving customer service to increase same store sales and productivity levels.

While increasing same store sales is our priority in New Zealand, there is an opportunity to open another two stores this financial year and these sites are currently under investigation.

There were 46 stores open as at 30 June 2004.



CANADA lifts sales

OPERATING RESULTS

CANADA (NZ \$'000)	2004	2003
Revenue	5,860	2,308
Earnings before interest & tax	- 1,366	-1,802
Average assets employed	5,023	5,195
Number of stores	4	4

Revenue in our four stores continued to grow throughout the year. In Canadian dollars sales increased 166% to C\$4,922,400, up from \$1,846,400 last year. This represents an average sales volume of \$1,230,600.00 per store.

The EBIT loss in Canadian dollars improved 20% from a loss of C\$1,442,000 in 2002/03 to a loss of C\$1,147,000 in 2003/04. This loss is reasonable when you consider the difficulty of establishing a business in the North American market. Canada will provide us with substantial growth prospects in the future and we feel we are making good progress to date.

The sales volume, margins, wage expenditure, and other important key performance indicators being achieved this year indicate our store model will be successful in the Canadian market. We will gain momentum with further store expansion and increased brand awareness as scales of economy in advertising and buying are improved. This year we invested one million dollars in advertising to help establish the brand and to build a higher level of awareness. As we grow this level of advertising expenditure will begin to amortise across a wider store base.

With this in mind we have decided to open a further four stores in Canada. Two of these are due to open in Vancouver in late October. A further two are expected to open next calendar year.

We believe that Canada has an exciting future. As we open more stores, we will monitor their progress carefully. At current levels of performance we believe it will take approximately twelve stores to break even.

International Financial Reporting Standards

Michael Hill International will report in accordance with the new International Financial Reporting Standards (IFRS) for the 05/06 financial year with the opening balance sheet as at 1 July 2005 and the comparatives for the 04/05 year adjusted to reflect IFRS.

The company is managing the transition to IFRS as follows :

- Key accounting staff are attending professional body education seminars.
- Professional advice has been sought and will continue to be sought from our external advisors up to the time of conversion.



An aerial photograph of Vancouver, British Columbia, Canada. The image shows a dense urban area with numerous high-rise buildings, a large body of water (likely the Burrard Inlet), and snow-capped mountains in the background under a clear blue sky. The text is overlaid on the upper portion of the image.

“THE SALES VOLUME, MARGINS, WAGE EXPENDITURE AND OTHER KEY PERFORMANCE INDICATORS BEING ACHIEVED THIS YEAR INDICATE OUR STORE MODEL WILL BE SUCCESSFUL IN THE CANADIAN MARKET.”

Mike Parsell, CEO

PHOTO: VANCOUVER, B.C. - HOME TO 4 MICHAEL HILL JEWELLER STORES AT SEPTEMBER 2004



Our priorities

Our main priorities for the next financial year are as follows.

- To open another fifteen new stores across all markets.
- To continue to grow the Canadian business towards a breakeven position by June 2006.
- To achieve further same store sales and EBIT growth through a strong focus on our customers, our people, and our brand.
- To finalise the reorganisation of our supply chain and merchandising systems to support international growth.
- To deliver an average return on shareholders funds in excess of 25%.

Thanks to an amazing team

Finally, I would again like to acknowledge our entire team. This year they have delivered an exceptional result which is a credit to each and every one of them. Congratulations and thank you.

A handwritten signature in black ink that reads "Mike Parsell". The signature is written in a cursive, flowing style.

Mike Parsell
Chief Executive Officer



FINANCIAL REVIEW - discussion and analysis

SURPLUS AFTER TAX

The Group's surplus after tax was \$15,060,000 a 47% increase on last year's surplus excluding the unusual item for profit on sale of the Australian head office building of \$1,326,000. Total sales went up from \$224,802,000 to \$259,777,000 a 15.6% increase.

The main factor contributing to this record result was an increase in the Australian same store revenue of 9.8% which was achieved while maintaining its gross margin. NZ same store sales increased 1.2% for the year. The NZ EBIT contained a one-off write down associated with the pending centralisation of support services to Brisbane of \$705,000. If this one-off cost is added back to the NZ EBIT then they enjoyed an increase in EBIT of 9.1% to \$11,714,000. The EBIT loss in Canada reduced from NZ\$1,802,000 to NZ\$1,366,000 in its first full year of operation. The directors are pleased with this result and more stores are planned in Canada for 04/05.

Occupancy costs represented 6.7% of trade sales this year compared to 6.5% last year.

Depreciation for the group went up from \$5,070,000 to \$6,025,000 in 03/04.

CASH FLOW

Net cash flow from operating activities was \$24,779,000 compared to \$6,789,000 last year, an increase of 265%.

Key drivers were:

- an increase in receipts from customers of \$21,001,000, a 8.7% increase on last year;
- a decrease in income tax paid of \$1,821,000, a decrease of 27.5%.

Net cash outflow relating to investing activities was up by \$1,283,000 to \$6,124,000.

Key drivers were:

- cash flow from sale of assets down from \$5,335,000 (principally from sale of Australian head office building) to \$250,000 this year;
- purchase of new assets decreased to \$6,409,000, down from \$10,313,000.

Net cash outflow from financing activities was \$6,487,000 compared to a net inflow of \$78,000 last year due mainly to:

- Borrowings reduced from \$21,552,000 in 02/03 to only \$6,593,000.
- Dividends paid reduced to \$6,944,000 from \$14,266,000 (special dividend of \$7,712,000) in 02/03.

BALANCE SHEET

Net assets increased from \$50,048,000 at the end of 02/03 to \$57,607,000 this year. Long term borrowings decreased slightly to \$40,604,000 from \$42,299,000 last year. The net debt to debt plus equity ratio decreased to 32.5% from 44.5% last year. The equity ratio at year end was 46.9% compared to 45.8% at the same time last year. Total assets went up from \$109,228,000 to \$122,831,000 due principally to:

- Cash on hand up \$11,723,000.
- Inventories up \$3,768,000.

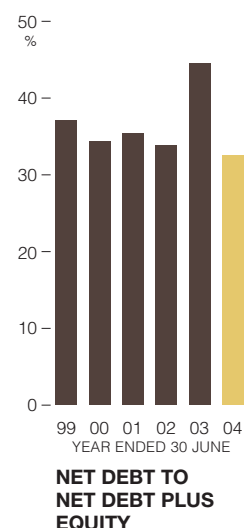
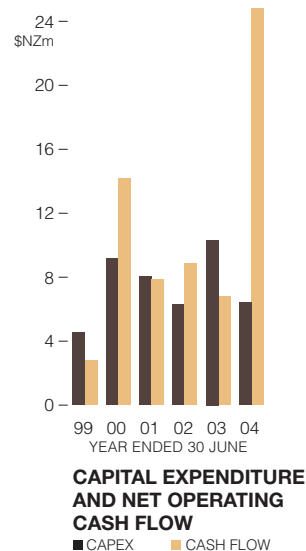
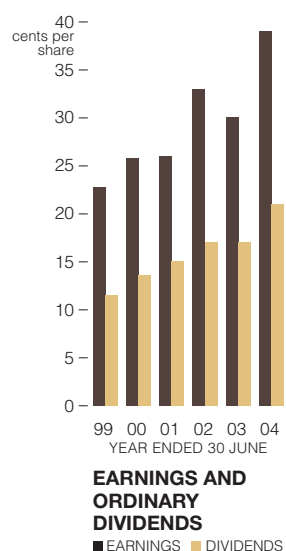
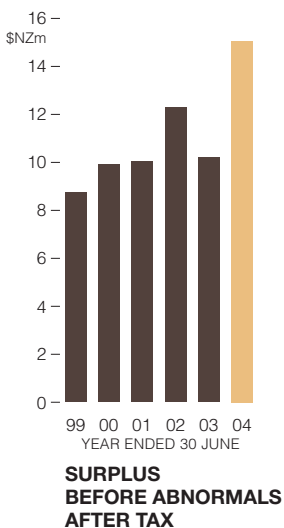
The working capital ratio decreased from 5.4:1 to 4.3:1.

EVENTS AFTER BALANCE DATE

There were no events after balance date requiring disclosure.

SHAREHOLDERS' RETURNS

- Declared dividends total 21 cents per share compared to 37 cents for 02/03 (which included a special dividend of 20 cents per share).
- Shares traded between \$4.05 and \$6.00 ending at \$6.00 at 30 June 2004.
- Average return on equity was 28% compared to 22% last year
- Average return on total assets was 13.0% compared to 11.2% last year.



TREND Statement

	2004 \$000	2003 \$000	2002 \$000	2001 \$000	2000 \$000	1999 \$000	1998 \$000
Group Sales	\$ 259,777	\$ 224,802	\$ 214,105	\$ 189,168	\$ 181,983	\$ 156,940	\$ 141,254
Earnings							
Surplus before taxation, before abnormals	22,063	15,096	18,340	15,130	15,517	13,549	11,059
Surplus before taxation, after abnormals	22,063	16,637	18,698	15,130	15,517	13,549	11,059
Tax provision	7,003	5,067	5,992	5,091	5,578	4,755	3,867
Surplus after tax, before abnormals	15,060	10,244	12,298	10,039	9,939	8,774	7,192
Surplus after tax, after abnormals	15,060	11,570	12,706	10,039	9,939	8,774	7,192
Dividend Distributions	6,944	14,266	5,978	2,518*	5,216	4,444	3,669
Retained surplus for year	8,116	(2,696)	6,728	7,521	4,723	4,330	3,523
Funds Employed							
Paid-up ordinary capital	8,078	7,712	7,712	7,712	7,712	7,712	7,712
Reserves and retained earnings	49,529	42,336	45,616	41,860	34,875	29,339	24,605
Shareholders' funds	57,607	50,048	53,328	49,572	42,587	37,051	32,317
Non current liabilities	42,091	43,478	28,994	28,503	22,670	21,849	18,302
	99,698	93,526	82,322	78,075	65,257	58,900	50,619
Utilisation of funds							
Non current assets	23,619	23,475	17,510	22,652	19,635	14,583	13,169
Expenditure carried forward/goodwill	222	298	393	505	625	756	892
Net working capital	75,857	69,753	64,419	54,918	44,997	43,561	36,558
	\$ 99,698	\$ 93,526	\$ 82,322	\$ 78,075	\$ 65,257	\$ 58,900	\$ 50,619

*There was a change in accounting policy in 2001 regarding providing for dividends.

CASH FLOW STATEMENT

	2004 \$000	2003 \$000	2002 \$000	2001 \$000	2000 \$000	1999 \$000	1998 \$000
Net profit before tax	22,063	16,637	18,698	15,130	15,517	13,549	11,059
Depreciation	6,025	5,070	4,855	4,280	4,264	2,903	2,783
Other non-cash adjustments	192	311	(350)	147	1,545	1,002	1,901
Tax paid	(4,806)	(6,627)	(6,753)	(7,911)	(5,718)	(4,567)	(3,786)
Dividends	(6,944)	(14,266)	(5,978)	(5,410)	(4,638)	(4,059)	(3,091)
Working capital increase	1,305	(8,602)	(7,579)	(3,759)	(1,394)	(10,106)	(3,455)
Capital expenditure	(6,409)	(10,313)	(6,256)	(8,028)	(9,161)	(4,502)	(2,652)
Other	366	0	0	0	0	(30)	(82)
Surplus cash pre external funds	11,792	(17,790)	(3,363)	(5,551)	415	(5,810)	2,677
External source of funds							
Net borrowings/(repayments)	0	14,656	2,326	6,250	0	3,455	(1,750)
Treasury stock	91	(312)	(435)	-	-	-	-
Asset sales	285	5,472	1,808	178	146	222	238
Surplus cashflow	\$ 12,168	\$ 2,026	\$ 336	\$ 877	\$ 561	(\$ 2,133)	\$ 1,165

STATISTICS & OTHER FINANCIAL DATA

	2004	2003	2002	2001	2000	1999	1998
Earning per share	39.07c	30.0c	32.95c	26.03c	25.8c	22.8c	18.7c
Net tangible asset backing	\$1.49	\$1.29	\$1.37	\$1.27	\$1.09	94.6c	82.1c
Interest cover (times)	8.8	7.2	10.3	8.1	10.6	9.9	8
Cash flow from operating activities \$000's	\$24,779	\$6,789	\$8,871	\$7,887	\$14,214	\$2,781	\$8,502
Net debt \$000's	\$26,587	\$40,177	\$27,454	\$27,113	\$22,051	\$21,234	\$16,023
Dividend per ordinary share	21.0c	†37.0c	17.0c	15.0c	13.5c	11.5c	9.5c
% of tax paid profit as ordinary dividend	53.7%	56.6%	45.6%	25.0%	52.3%	50.5%	51.0%
Working capital ratio	4.3:1	5.4:1	5.6:1	5.1:1	3.6:1	3.8:1	3.9:1
EBIT/Sales % before abnormals	9.6%	7.9%	9.5%	9.1%	9.4%	9.6%	8.9%
Return on average capital funds	28.0%	22.0%	23.90%	21.8%	24.9%	25.3%	24.0%
Jewellery stores at year end	143	134	120	115	106	102	94
Exchange rate for translating Australian results	0.88	0.89	0.82	0.79	0.8	0.84	0.83
Exchange rate for translating Canadian results	0.84	0.80	-	-	-	-	-

† Includes 20c special dividend.

PEOPLE FOCUSED PERFORMANCE

3 Countries, 3 Teams... one direction

Global Focus 2003-2004

Over the past 12 months the Human Resources team has centralised to Brisbane Australia and the team continues to partner closely with retail operations to ensure that people strategies are relevant to retail and support our retail growth objectives in each country.

One of the major focuses of the past year has been the streamlining of our people practices, policies and training systems to achieve consistency. The group now operates from shared policies and procedures resulting in improved operational performance and legal compliance.

Another major area of achievement for the year was the launch of the Regional Manager Development programme, aimed at producing internal leaders to sustain future growth plans. The Regional Management team are our most influential drivers of organisational change and future development. The Australian and New Zealand Regional Managers have joined together as one team and participated in a series of in-house workshops aimed at developing leadership capability and maintaining a high performance retail team.

Global Highlights

- This year has seen the launch of the first Michael Hill Jeweller global Video Newsletter for staff which will be produced three times a year. Communicating directly with our

employees in all countries through a visual medium allows us to communicate on a more personal level with our people.

- Michael Hill Jeweller has established a new comprehensive Performance Management System to drive strategic and operational priorities for planned global expansion. Line Management have embraced the new systems designed to achieve business potential through Quarterly Business Planning, Action Plans, Performance Evaluation and Individual Development Plans. A specific Team Leadership Survey was also designed to provide feedback on behaviours and values demonstrated by the company's business leaders. The company's strategic goals have truly come alive as working operational plans are implemented, monitored, adjusted and evaluated.

- A key focus for this last year has been to implement a Regional Management Professional Development Programme designed to build a high performance and cohesive Australasian Regional Management Team. This programme specifically aimed at developing future Retail General Managers for planned global expansion. A complete Regional Manager "Toolkit" was introduced to support this new direction. The toolkit was developed after in depth consultation with the team of 11 Regional Managers and consists of "best practice" tools needed to do the job. Regional Managers now work with a standardised folder of core systems and strategies.



- The new Human Resources Service Model reflects a department structured and specifically designed to deliver to the retail client. The new role of Human Resources Advisor provides regions with Human Resource advice and service across all aspects of the business. This is achieved by developing effective work relationships with retail managers in a client group of up to 450 employees.

- Last year the Human Resources Department conducted formal training workshops for 150 managers in Australia and in New Zealand 204 employees attended formal training. Workshops included topics such as Performance Management, Performance Counselling, Recruitment and Selection, Staff Rostering and Gross Profit Management. In New Zealand 57 Managers in Training completed the Store Manager Professional Development Programme. In Australia 18 Managers in Training were accredited with a nationally recognised Certificate Level III on completion of the in-house Michael Hill Jeweller Management Programme.

GROUP EXECUTIVE TEAM



◀ **MIKE PARSELL**

Chief Executive Officer, aged 45
 The 2003/04 financial year saw enormous achievements across the group with profit up 30% on last year at just over \$15 million. The Canadian business is now well established, expansion is progressing to plan and we are close to reaching 100 stores in Australia. Improved structural and system changes within New Zealand and across Merchandising and the Supply Chain have allowed us to add more value to ensure we continue to grow effectively.



◀ **KEVIN STOCK**

Retail General Manager Australia, aged 42
 The Australian Regional Management team have driven retail sales to achieve record growth in revenue and profit for 03/04. Low staff turnover and retention of our Store Managers was a major contributing factor to the increase in sales. The group has benefited significantly from having a consolidated and cohesive team in retail.

▶ **GRANT PREST**

Retail General Manager, New Zealand, aged 30

Reflecting on the last six months in my role as Retail General Manager, I continue to be amazed at the number of brilliant people working in the New Zealand stores and their ability to put new ideas into action. One of the major focuses for the last 6 months has been on sales performance and gross profit. The move to three regions in New Zealand has allowed for improved communication and efficient implementation of business strategies.



▶ **EMMA HILL** B.Com, M.B.A.

Retail General Manager, Canada, aged 32

The last twelve months have been an incredible learning experience. To successfully compete in the Canadian market we have adapted many areas of our business formula. The fundamentals of what makes Michael Hill Jeweller truly great remain unchanged; we are focussed on developing the most highly skilled retail team in Canada and delivering a customer experience second to none. Our success is reflected in our strong same store growth and achievement of key performance indicators. We are now positioned for profitable growth.



◀ **PHIL TAYLOR** C.A., A.I.M.M.

Chief Financial Officer, aged 45.

Over the 03/04 financial year the Finance team has undergone significant changes in structure to accommodate global expansion and growth. This has included the appointment of the new Chief Financial Officer role in Brisbane from November 2003. The department has also maintained a continued focus on the upgrade of the company's Business Performance Management (BPM) systems to provide improved financial management tools to the business.



◀ **ROSS MCKINNON**

B.Eng Hons. BSc
 Chief Information Officer, aged 34.

The last twelve months has seen the consolidation of a very talented, professional team of experts in the IT Department. This team has had huge success in developing and implementing a global network system that has paved the way for the implementation of global applications and delivered improved communications including access to both intranet and email at store level.



▶ **TINA RADFORD** B.Bus (HR/IR)

Group Human Resources Executive, aged 31.

The Human Resources team has successfully integrated our people practices, policies and training systems and achieved consistency throughout the company. The introduction of our Regional Manager Development Programme and Performance Management system has made a measurable contribution to retail.



▶ **PAUL WILLIAMS** B.B.S.

Group Supply Chain Executive, aged 39.

This last year has seen the restructuring of the three Supply Chain departments to centralise systems and processes across countries and results were well beyond expectations. With Stage One centralisation now complete, the dynamic teams across Merchandising, Distribution and Manufacturing will continue to improve productivity to achieve future growth.



Celebrate You

- The annual Michael Hill Jeweller Manager's Conference at Coffs Harbour proved to be a true reflection of our ability to 'Shine'. With over 190 delegates from Australia, New Zealand and Canada, a great location and an array of motivational guest speakers, a great conference ensued. The team at Penrith were awarded first place for Top Financial Performance in Australia, with an outstanding result for the year. In New Zealand, St Lukes achieved a dazzling end of year result and was awarded first place for Top Financial Performance. Awards were also presented to our 'Canadian Pioneers' for their hard work and determination in ensuring the success of our Canadian operation in its first year.

- The Australian Gold Club celebration was held at Couran Cove Island Resort. The event saw 68 members of our elite sales team celebrate their accomplishments for the year. New Zealand's Gold Signature Club celebrated their success at the Stamford Plaza Hotel in Auckland. This year there were 23 Sales Professionals and Managers in Training who attended the function and contributed to its success. In June, Kevin Stock, Retail General Manager Australia and our four privileged members of the Platinum Club, Robyn Lee and Lianty Lioe - New Zealand, Kim Trew and Denise Henderson - Australia set off to celebrate their success with a visit the annual jewellery trade fair in Las Vegas.

- This year Michael Hill Jeweller entered two individually designed and crafted pieces into the Jewellers Association of Australia Design Awards. One entry 'Cascade', a necklace consisting of 21 ribs handmade in 18ct white gold, threaded and crimped on to a stainless steel cable was designed by

Meg Black, Product Development Designer and crafted by Tim Easterman, Brett McMahon and Darin World, Handmake Jewellers. (See page 27). A second entry 'Turmoil' inspired by the stone Tourmaline was both designed and crafted by Renee Hudson, Apprentice Jeweller. Both pieces are remarkable works of art and truly reflect the great talent that we hold within Michael Hill Jeweller:

Future Strategic Directions

The Group Human Resources team will continue to partner with the Retail businesses to assist in the achievement of our retail growth objectives. The key strategies

for the coming 12 months are as follows:

- A strong focus on Canada. Fast track development of our Canadian Managers in Training to prepare for future planned growth.
- Talent Management – developing our future leaders will remain a top priority as we continue to grow and expand. 2005 will see the launch of a new leadership development programme for retail. The aim of the programme is to provide for succession planning for Store Managers into Regional Management.
- Culture Survey – A global 'people' survey will be conducted throughout the group. The survey will provide management with an insight into the views and ideas of staff across all countries and business units. The survey will assist in guiding the overall Human Resources strategy in the coming years.



MANAGERS' CONFERENCE 2003, COFFS HARBOUR:

Left - THE TEAM LIMBERING UP

Below left - THE CANADIAN MANAGERS TEAM

Below - MIKE PARSELL, MICHAEL AND CHRISTINE HILL





PHOTO: 'TURMOIL',
DESIGNED & CRAFTED BY
RENEE HUDSON, APPRENTICE
JEWELLER @ MHJ.

MICHAEL HILL supports you

Michael Hill World Violin Competition

The third Michael Hill International Violin Competition will be held once again in June 2005. This prestigious competition is held every two years and aims to recognise and encourage excellence and musical artistry in young violinists from all over the world who are on the brink of launching their professional solo careers and are aspiring to establish themselves on the world stage. The semi finals are held in Queenstown, with finals in Auckland with the Auckland Philharmonia.

The first prize of this competition consists of NZ\$40,000 sponsored by Michael Hill International, a CD recording on the Naxos label for world-wide distribution and engagements (2006) under the management of the Auckland Philharmonia.

Michael Hill in the pink...

Michael Hill Jeweller would like to thank everyone who helped us raise over NZ\$52,000

for the National Breast Cancer Foundation in New Zealand and Australia, through our very successful 'Pearls of Hope' promotion.

We created the 'Pearls of Hope'; a necklace, bracelet and earring set crafted from exquisite freshwater cultured pearls, and pledged \$20 from the sale of every set to this very important cause.

October this year will once again see Michael Hill Jeweller raise money for breast cancer research. We will be offering a pink leather strapped MH watch with \$20 from every sale going to research. Pink ribbons will also be on sale in every store.

Michael Hill and the community

Every year Michael Hill Jeweller helps out by donating to local communities, schools and hospitals around the countryside, for prizes. This year the company assisted these worthy causes in excess of \$150,000.

CORPORATE GOVERNANCE

The Board acknowledges the need for and continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees of Michael Hill International Limited and its subsidiaries.

The Board endorses the overall principles embodied in the New Zealand Institute of Directors' "Code of Proper Practice for Directors".

As a result of the issuing by the NZX of its new Corporate Governance Best Practice Code in the past 12 months, and the Securities Commission's nine principles of Corporate Governance issued in February 2004, the Board has reviewed its corporate governance policies and procedures during the year to ensure compliance with the new code and principles. The Board believes that its corporate governance policies and procedures do not materially differ from those detailed in the NZX Best Practice Code.

The Board is accountable for the performance of the Group

The Board is responsible to shareholders for charting the direction of the Group by participation in the setting of objectives, strategy and key policy areas. It is then responsible for monitoring management's running of the business to ensure implementation is in accordance with the agreed framework. The Board delegates the conduct of the day-to-day affairs of the Company to the Chief Executive Officer within this framework.

The workings of the Board and its code of conduct are governed by the Company's constitution and a Board Operations Manual, committed to by all Directors. This manual sets out all the functions and operating procedures of the Board, including charters for each sub-committee. The Board Operations Manual also clearly sets out those matters that only the Board can make decisions on. These include dividend

payments, solvency certificates, raising new capital, major borrowings, approval of the annual accounts, provision of information to shareholders, major capital expenditure, and acquisitions.

Each year, the company produces a three year plan and an operating budget which are both reviewed and approved by the Board. Financial statements are prepared monthly and reviewed by the Board progressively through the year to monitor management's performance against the budget and five year plan.



Board Membership

The Constitution currently sets the size of the Board at a minimum of three and a maximum of eight and at least two Directors must be resident in New Zealand. The Board currently comprises six Directors, comprising an Executive Chairman, a Chief Executive Officer, and four non-executive Directors. The Board met on five occasions in the financial year ended 30 June 2004. Profiles of the current Directors appear on page 26 of this Report. Under

the Company's constitution, one half of all Directors must retire every year, but can be re-elected at an annual meeting if eligible. Newly appointed Directors must seek re-election at the first annual meeting of shareholders following their appointment.

The Company has no requirement for Directors to hold shares in the company but actively encourages them to do so and all current Directors have a substantial holding in the company.

Independent Directors

Under the new NZX rules, the Company is obliged to have at least two independent directors.

An independent Director has been defined in the NZX rules as a "Director who is not an executive of the Issuer and who has no Disqualifying Relationship."

A Disqualifying Relationship means any direct or indirect interest or relationship that could reasonably influence, in a material way, the Director's decisions in relation to the Issuer.

The Company has determined that Gary Gwynne and Murray Doyle are independent Directors under the NZX rules.

Directors' Shareholdings - See Page 45

Directors' Meetings

The number of meetings held throughout the past year is detailed below.

The agenda for meetings is prepared by the Company Secretary in conjunction with the Chairman and the Chief Executive Officer. Any member of the Board may request the addition of an item to the agenda. Board papers are circulated to Directors a week in advance of meetings.

The following table sets out the Board and sub-committee meetings attended by Directors during the course of the Financial Year.

	Board of Directors		Audit Committee		Remuneration Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
R.M. Hill	5	5			2	2
M.R. Parsell	5	5				
L.W. Peters	5	5	2	2	2	2
G.J. Gwynne	5	5	2	1	2	2
M.R. Doyle	5	5	2	2	2	2
A.C. Hill	5	5			2	2

The Work of Directors

Non-executive directors normally spend around 22 days per year on board and sub-committee meetings. The length of meetings varies between one to two days. Board meetings are held in different locations in Australia and New Zealand, and the Board endeavours to visit as many Michael Hill Jeweller stores as possible during the course of a meeting in a particular city. This enables the Directors to keep in touch with the staff at the coalface and to keep abreast of the latest store designs and shopping mall developments.

Board Review

During the course of the last financial year, the Chairman reviewed the performance of the Directors and the Board conducted a self assessment of its performance over the previous 12 months. As a result of the review and the new NZX rules Gary Gwynne was appointed to the Audit subcommittee as a new member.

The format of information presented to the Board meetings was changed substantially during the year to reflect the globalisation of the business.

There were no other substantial changes made to any of the Board's processes as a result of this review.

Chief Executive Office performance review

The Board regularly reviews the performance of the Chief Executive Officer.

This evaluation is based on the performance of the business, the accomplishment of strategic and operational objectives and other non quantitative measures.

Board Committees

The Board has established a number of sub-committees to guide and assist the Board with overseeing certain aspects of corporate governance – the audit process, determination of compensation issues and the structure of the Board itself. Each sub-committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain

independent legal or other professional advice. The provision of such advice, if required, would be arranged in consultation with the Chairman. In circumstances where a Director was to obtain separate advice from that obtained on behalf of the Group, that advice would normally be provided to all Directors.

Audit Sub-Committee

The Audit sub-committee, which is chaired by Murray Doyle and consists of Messrs Doyle, Peters and Gwynne, met twice during the year. Gary Gwynne joined the sub-committee in February 2004. The function of the Audit sub-committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993, regarding management's accountancy practices, policies and controls relative to the Group's financial position and to review and make appropriate inquiry into the audits of the Group's financial statements by both

internal and external auditors. This responsibility includes advising on the appointment of the external auditor and reviewing the scope and quality of the audit. The audit sub-committee has the responsibility of monitoring the Group's Risk Management practices and procedures to ensure that policies and processes exist to effectively identify, manage and monitor principle business risks. The Group's auditors, both internal and external, along with other relevant senior executives, attend all meetings and may discuss any matters in connection to audits, the Group's risk and control environment or any other matters relating to the Group's financial and non-financial affairs.

This committee also approves any non audit work carried out by the Company's

CORPORATE GOVERNANCE cont.

auditors, and ensures that the lead partner in the audit firm is rotated every five years.

The committee will also approve all major accounting policy changes.

At least once a year, the Chairman and non-executive Directors on this Committee meet with the external auditors privately without the presence of Company executives.

Remuneration Sub-Committee

This sub-committee, chaired by Wayne Peters, comprises all Directors except Mike Parsell. The function of the Remuneration sub-committee is to determine the Chief Executive's and Senior Management's remuneration. This role also includes responsibility for share option schemes, incentive performance packages, and fringe benefit policies. The sub-committee also advises on proposals for significant company wide remuneration policies and programs. In carrying out this role, the sub-committee operates independently of Senior Management of the Company, and obtains independent advice on the appropriateness of the remuneration packages. The committee met on two occasions during the year.

This sub-committee also has the responsibility to review the performance of the Chief Executive Officer on an annual basis.

The committee has continued to structure Senior Management bonuses around a return on capital employed basis, to emphasise efficient use of capital.

Nominations Sub-Committee

This sub-committee, chaired by Michael Hill, consists of the non-executive Directors and Michael Hill. The function of the sub-committee is to make recommendations to the Board regarding the most appropriate Board structure. It also advises on the appointment of additional Directors. Board membership is reviewed periodically to ensure the Board has an appropriate mix of qualifications, skills and experience. External advisors may be used to assist this process.

Any person who is to be considered as a Director of the Company must attend three

Board meetings in the capacity of a Consultant before being eligible for appointment as a Director.

Share Trading by Directors

The Directors named below have disclosed to the Board under Section 148 of the Companies Act 1993, particulars of the following acquisitions or dispositions of relevant interests in the ordinary shares of the company during the year. The relevant interest acquired or disposed of includes beneficial ownership.

	No. of shares acquired or (disposed of)	Consideration paid or (received)	Date of acquisition or (disposal)
L.W. Peters	842,218	\$3,451,322	26/08/03
	27,410	\$121,025	10/10/03
	328,337	\$1,444,663	04/11/03
	121,500	\$535,442	04/11/03
	65,485	\$288,689	21/11/03
	212,015	\$969,160	28/11/03

Non-Executive Directors' Fees

Fees for non-executive directors are based on the nature of their work and their responsibilities. Over the past two years the company has become a truly global company with 68% of the Group's stores in Australia and Canada. Shareholders at the Annual Meeting in November 2001 approved a maximum amount of \$215,000 to be paid to Directors. Each NZ resident Director is currently paid \$50,000 per annum and our Australian resident Director A\$50,000 per annum. A resolution is being put to the Annual meeting on 5th November to increase the aggregate amount to be paid to non executive directors to NZ\$250,000. No equity incentives are offered to non-executive Directors.

At the Annual meeting in 2003, the Company's constitution was changed so that no retirement allowances are payable to Directors unless they are first approved by an ordinary resolution of shareholders. It is not the intention to pay such retirement allowances.

Share Purchase Scheme

The Company has a Share Purchase Scheme for Management in operation.

The scheme was designed to encourage Store Managers, Regional Managers and other senior employees of the Company to purchase shares in the Company. In order to provide a pool of shares for eligible employees to purchase, the Company from time to time will buy Michael Hill International shares on the New Zealand Stock Exchange. In the year ended 30 June 2004, the Company purchased 7,745 shares on market at an average acquisition price of \$4.42 per share. These shares were purchased during the window periods available for Directors to deal in shares of Michael Hill International.

On the 26th of March 2004, the Company sold 26,095 shares to 19 employees of the company. The rules of the scheme provide for the Company to on sell shares to purchasing employees at a 10% discount to the weighted average price for the ordinary shares during the 10 working day period ending 2 working days immediately prior to the date on which the Company offers shares to the employees. The discount is deemed to be "financial assistance" under the Companies Act 1993. The total discount relating to the issue of shares was \$14,091. After taking the discount into account, the purchasing employees paid \$124,995 for the shares which was equivalent to an average acquisition price of \$4.79 per share.

The Trustees of the scheme hold the shares for a restrictive period of one year, which is to promote the concept of encouraging long-term investing in the Company. The company holds a further 121,088 shares which are held as "Treasury Stock" and will be used for the next issue of shares under the scheme in February 2005.

Share Options

There were no new options issued to staff during the year.

100,000 options were exercised during the year.

Further information on options outstanding to employees are included in note 5 to the Financial Statements on page 38.



Communication with Shareholders

Michael Hill International places high importance on communication with shareholders. A half year and annual report is published each year and posted on the MHI website.

Announcements to the New Zealand Stock Exchange and the media are also posted on the website as are copies of presentations to Analysts which are done once a year in conjunction with the release of the annual results for the year.

The Company Secretary takes primary responsibility for communications with the New Zealand Stock Exchange in relation to listing rule obligations and disclosure obligations.

Shareholders may raise matters for discussion at Annual meetings and have the ultimate control in corporate governance by voting Directors on or off the Board.

Continuous Disclosure Policy

With the introduction of the new NZX continuous disclosure rules from December 2002, the Board has adopted the following procedure:

1. At each Board meeting, a standard agenda item is now considered – “ Does the Company have anything to disclose ?” The Board considers the information in its possession and decides appropriately whether any information needs to be disclosed to the market.
2. Between Board meetings, management will bring to the attention of the Directors any information they believe should be disclosed to the market for their consideration.
3. The Company now discloses revenue figures for the group on a quarterly basis to the market. In the 12 months from August 2003, the Company has made the following disclosures to NZX under the continuous disclosure rules :

30 Sept 2003	Annual Report released to NZX and shareholders.
6 Oct 2003	Announcement to NZX re franking credits to be attached to dividend on 20/10/03.

20 Oct 2003	Release of revenue figures for 3 months ended 30 September 2003.
26 Nov 2003	Notice re purchase of Treasury stock for staff share purchase scheme.
20 Jan 2004	Release of revenue figures for 6 months ended 31 December, 2003.
10 Feb 2004	Preliminary half year profit announcement to NZX and interim dividend announcement.
16 Feb 2004	Notice of exercise of 100,000 options.
22 Mar 2004	Issue of interim report to shareholders.
30 Mar 2004	Notice of issue of 26,095 shares under the staff share purchase scheme.
15 April 2004	Release of sales figures for 9 months ended 31 March 2004.
26 May 2004	General statement to NZX on Company plans to restructure Whangarei support office.
13 July 2004	Release of sales figures for 12 months ended 30 June 2004.
20 Aug 2004	Release of preliminary audited profit results for 12 months ended 30 June 2004.

The Company believes it has complied with the NZX Continuous disclosure rules.

External Audit Independence Policy

The Group has adopted the following policy to ensure that audit independence is maintained, both in fact and appearance, such that Michael Hill International's external financial reporting is viewed as being highly reliable and credible.

The policy covers the following areas:

- Provision of non audit services by the external auditors.
- Fees and billings by the auditors
- Hiring of staff from the audit firm

Provision of non audit services by the external auditing firm

Our external auditing firm should not undertake any role not permitted under IFAC (International Federation of Accountants) regulations regarding independence of auditors. Under the IFAC guidelines, the table below sets out the type of non audit work that Michael Hill

International will allow its external auditing firm to perform.

BOOKKEEPING	Prohibited, other than in emergency situations. Managerial decision making prohibited.
VALUATIONS	Prohibited.
TAX SERVICES	Permitted, as not seen to threaten independence
PROVISION OF IT SYSTEMS	Design and implementation of financial IT systems prohibited.
STAFF SECONDMENT FROM AUDITORS	These are permitted with safeguards. No management decision making. Signing agreements or discretionary authority to commit MHI is not allowed.
LITIGATION SUPPORT SERVICES	Permitted with safeguards.
LEGAL SERVICES	Permitted where immaterial to the financial statements.
EXECUTIVE SEARCH AND SELECTION	Permitted with safeguards. Making selection for MHI prohibited.
CORPORATE FINANCE	Permitted with safeguards. Promoting, dealing in or underwriting MHI Securities prohibited. The safeguards put in place will be specific to the circumstances of each case. The general rule to be applied is whether an independent third party would consider the safeguards reasonable.

Fees and Billings

All audit and non audit fees to be reported to the Audit committee annually. Non audit fees greater than \$25,000 should be reviewed by the Chief Financial Officer and reported to the Audit committee for approval. (For the 2003/04 financial year audit fees amounting to \$176,000 and fees for other financial services amounting to \$204,000 were paid to PricewaterhouseCoopers)

Hiring of Staff from the External Auditing Firm

The hiring by Michael Hill Jeweller of any partner or audit manager must first be approved by the Chairman of the Audit committee. There are no other restrictions on the hiring of staff from the audit firm.

RISK MANAGEMENT REPORT

Michael Hill International Limited is committed to the management of risk throughout its operations in order to protect our employees, assets, earnings and reputation.

Risk Management Process

The Board of Directors are responsible for Risk Management which starts each year with the development, review and approval of a strategic plan incorporating assessment of opportunities and risks associated with these opportunities.

These strategic plans are reviewed and discussed at each board meeting to ensure risks associated with the approved plans and projects are reviewed and managed.

A formal risk management workshop by the group executives is planned each year to update the risk register which is included in

the Audit Sub-Committee agenda at every Board Sub-Committee meeting.

Business Continuity Plan

The Group has a Business Continuity Plan in place which will be reviewed in the coming year and updated as required.

Insurance Program

The Group has a comprehensive global insurance program which supports the risk management process. This program is reviewed annually to ensure it reflects the groups exposures and risk profile.

Internal Audit

The Group has an Internal Audit function that is responsible for developing a comprehensive continuous audit program and for performing internal audit reviews

which support the Groups Risk Management process. The internal auditors have a direct communication line to the Board Audit Sub-Committee should they deem it necessary to report any matter to the Sub-Committee. The Internal Audit manager attends the twice-a-year Audit Sub-Committee meetings and presents their report.

Code of Ethics

Our Board of Directors believes that good risk management is supported by the highest standards of corporate behavior towards our employees, customers and other stakeholders. The Code of Ethics is a guide to help our Directors and employees live up to high ethical standards and responsibilities towards our fellow employees, customers and other stakeholders.

CORPORATE CODE OF ETHICS

Michael Hill International believes that outstanding business performance must be supported by the highest standards of corporate behaviour towards our employees, customers and other stakeholders. This code of ethics is a guide to help our Directors and employees live up to our high ethical standards.

Our Corporate Code of Ethics is supported by written policies and procedures on each of these standards, by providing training to employees on the details and importance of these standards, and by formal communication systems to ensure these standards are observed, discussed and reinforced. Our Directors and Management team will lead by example, demonstrating their commitment to this Code of Ethics at all times through their personal behaviour and through the guidance they provide to our staff.

In general, all Directors and employees are expected to act honestly in all their business dealings and to act in the best interests of the Company at all times.

Our Employees

- Respect, fairness, honesty, courtesy, and good faith will guide all relations with employees.
- Opportunity without bias will be afforded each employee in relation to demonstrated ability, initiative, and potential.
- We will strive to create and maintain a work environment that fosters honesty, personal growth, teamwork, open communications, and dedication to our vision and values.
- We will strive to provide a safe workplace that at a minimum meets all health and safety laws and regulations.

- The privacy of an individual's records will be respected and will not be disclosed without proper authority unless there is a legal obligation to do so.

Our Customers

- We support and uphold at all times the tradition and integrity of the jewellery industry, and conduct our business in such a manner that will reflect credit on our industry and us.
- All our marketing and advertising will be accurate and truthful.
- We are committed to providing the highest quality, service, and value to our customers. We provide a five year Guarantee for all our jewellery which contains a diamond, and a 12-month Guarantee for any jewellery item not containing a diamond. It is a guarantee of quality of workmanship and materials. We provide a 30-day Change of Mind policy that is a money back guarantee on all purchases if for any reason the customer is not completely satisfied.
- We will protect customer information that is sensitive, private, or confidential just as carefully as our own.

CORPORATE CODE OF ETHICS cont.

Our Business Partners

- Suppliers win our business based on product or service suitability, price, delivery, and quality. We also expect suppliers to have high ethical standards in their business practices.

Our Shareholders

- We require honest and accurate recording and reporting of any and all information in order to make responsible business decisions.
- All financial records and accounts will accurately reflect transactions and events, and conform both to required accounting principles and to our Company's system of internal controls. No false or artificial information will be tolerated.
- We will safeguard all sensitive information. We will not disclose inside information that has not been reported publicly.

Our Communities

- We wish to be good corporate citizens and wish to build positive relationships with communities where we have a presence. Our efforts focus on the arts, local schools and charities, through periodic donations, including jewellery, to good causes.

Company Property and Assets

- Our Directors and Employees will properly use company assets and safeguard and protect any company property under their care.

Governments

- In conducting business with due skill, care, and diligence, we seek always to comply with both the letter and spirit of relevant laws, rules, regulations, codes, and standards of good market practice in the countries we do business in.
- Our Company does not make political contributions and has no political affiliations.

Share Trading by Directors and Officers in MHI shares

- The Company does not condone any form of insider trading by Directors or officers.
- The Board Operations manual sets out a procedure which must be followed by Directors when trading in Michael Hill

International shares. Directors must notify and obtain the approval of the Company before trading in MHI shares and are only permitted to trade in two window periods. The window periods commence at the time half yearly or yearly results are announced and expire five months after the end of the financial year or four months after the end of the half yearly accounting period of the company, as the case may be. The NZX must also be notified within 5 days of any trading taking place.

- From the 3rd May 2004, all Officers of the Company (as defined by the Securities Amendment Act 2003) must also disclose to the company and to the NZX within 5 days, any dealings in MHI shares. They are also subject to the same "trading windows" as Directors as defined above.

Conflicts of Interests

- Employees will not accept anything of value from a customer, vendor, or business associate which would impair or be presumed to impair their judgment in business matters.
- The acceptance of gifts and gratuities is discouraged and any over \$50 must be entered in the Gifts Register held by the Financial Controllers. We may accept meals/hospitality that are not lavish and are reasonable in the context of doing business. Guidelines to use for the acceptance of any gift are : Will this influence my decision making ? Does it place me in obligation ? Could it be seen as an inducement ? How would this look if reported by the media ?
- Our employees will avoid any conflict of interest professionally and personally which might prevail or appear to prevail over the interests of the Company.
- Directors' conflicts of interests are dealt with in the Board Operations Manual. At all times, a Director must be able to act in the interests of the organization as a whole. The interests of associates, individual shareholders and the personal interests of the Director and his family must not be allowed to prevail over those of the Company and its shareholders generally.

Speaking Up

- Employees who know, or have genuine suspicions of any breaches of our Code of Conduct, Policies & Procedures, or any legal violation in relation to work related issues should report such matters promptly to their manager. If the employee does not feel comfortable discussing the issue with their manager, they should talk to another member of management, the Internal Auditors, or Human Resources.
- Employees will not be blamed for speaking up. The Company will make proper efforts to protect the confidentiality of employees who do raise concerns. Any attempt to deter employees raising proper concerns will be treated as a serious disciplinary action. Failure to abide by the Code of Ethics and the law will lead to disciplinary measures appropriate to the violation.





MIKE PARSELL

GARY GWYNNE

Board member profiles

MICHAEL HILL

The founder of Michael Hill Jeweller Limited in 1979. He is Chairman of the Board. He has more than 44 years of experience in the jewellery industry, including 10 years of management experience before establishing his own business. Aged 65 years, he was appointed to the Board in 1987. Member of Remuneration and Nominations sub-committees.

MIKE PARSELL

Chief Executive Officer of the Group, Mike spearheaded the Company's move into Australia in 1987. Aged 45, he has had extensive experience in the jewellery industry since 1976. Mike joined the Company in 1981 and was appointed to the Board in 1989, made joint Managing Director in 1995 and CEO in 2000.

GARY GWYNNE

Non Executive & Independent Director. Gary has an extensive background in marketing, retailing and property development. He is currently a Director of Prime Retail Management, the operators of Dress Smart Factory Shopping Centres and a Director of Overland Footwear Company. Aged 58, he was appointed to the Board in February 1998. Member of the Audit, Remuneration and Nominations sub-committees.

WAYNE PETERS

Non Executive Director. Wayne, who is 44 and based in Australia, has 26 years of experience in retailing and investment management. He is Executive Chairman of Peters MacGregor Capital Management Pty Ltd. Member of the Audit, Remuneration and Nominations sub-committees, Wayne joined the Board in February 1999.



WAYNE BUTLER

MURRAY DOYLE

WAYNE PETERS

MICHAEL HILL

CHRISTINE HILL

MURRAY DOYLE

Non Executive & Independent Director. Murray is a Director of Hirequip Limited and Wellington department store Kirkcaldie and Stains Limited. His previous experience was in the finance industry until 1998, when his stockbroking firm was purchased by Bankers Trust now Deutsche Bank. Aged 45, he is a member of the remuneration sub-committee and Chairman of the Audit sub-committee.

CHRISTINE HILL

Non Executive Director. Christine has been associated with the Company since its formation in 1979 and has been closely involved with the artistic direction of the Group's store design and interior layouts over the years. Aged 64, Christine is a member of the Remuneration sub-committee, and joined the Board in 2001.

Company Secretary,
WAYNE BUTLER

He has a financial background and has worked for the Company for 18 years. Aged 57 years, he has been Secretary of the Board since 1987.

▼ **PHOTO:** 'CASCADE', HANDMADE IN 18CT WHITE GOLD, DESIGNED BY MEG BLACK, PRODUCT DEVELOPMENT DESIGNER @ MHJ.



STATUTORY REPORT of the directors

The Directors have pleasure in submitting to shareholders the 17th Annual Report and audited accounts of the Company for the year ended 30 June 2004.

Business Activities

The group's sole business activities during the 2003/04 financial year continued to be jewellery retailing and manufacturing.

Consolidated Financial Results

The Group has recorded a tax paid surplus of \$15,060,000 for the year ended 30 June 2004 (2003 - \$11,570,000). This surplus was achieved on a turnover of \$259,777,000 (2003 - \$224,802,000).

The accounts for the year ended 30 June 2004 have been presented in accordance with the accounting principles and policies detailed on pages 36 and 37 of this report.

	2004	2003
	\$000	\$000
Group Turnover	259,777	224,802
Surplus before tax	22,063	16,637
Taxation	(7,003)	(5,067)
Surplus after tax	15,060	11,570
Dividends paid	(6,944)	(14,266)
Net surplus retained	8,116	(2,696)

Shareholders' Funds/Reserves

Total Shareholders' Funds of the Group now stand at \$57,607,000 – an increase of \$7,559,000 over the previous year.

The Group's reserves at 30 June 2004 totalled \$50,124,000.

	\$000
The Group's reserves at 30 June 2003 were	43,036
To which was added:	
Operating surplus after tax for the year	15,060
From which was deducted:	
Foreign currency translation reserve movement	(1,014)
Ordinary Dividends paid	(6,944)
Discount on sale of Treasury Stock	(14)
Leaving Reserves at 30 June 2004 at	\$ 50,124
These comprise:	
Retained earnings	49,927
Other reserves	197
	\$ 50,124

Accounting Policies

There have been no changes in accounting policies during the year.

Dividends

Your Directors paid an interim dividend of 8 cents per share, with full imputation credits and franking credits attached on the 29th March 2004. Overseas shareholders were also paid a supplementary dividend. On the 19th August 2004, your Directors declared a final dividend of 13 cents per share payable on the 18th October 2004. The share register will close at 5:00pm on the 8th October 2004 for the purpose of determining entitlement to the final dividend. Overseas shareholders will also be entitled to a supplementary payment on the final dividend. The total ordinary dividend for the year was

21 cents (fully imputed), a 23.5% increase over last year. The payout represents 53.7% of the tax paid profit of the group.

Directors

Messrs M.R.Doyle, G.J. Gwynne and R.M. Hill retire by rotation and being eligible offer themselves for re-election.

Directors' Remuneration

Directors remuneration and all other benefits received, or due and receivable during the year was as follows:-

	2004	2003
	\$000	\$000
Parent Company		
R.M. Hill *	\$153	\$153
M.R. Parsell *	A\$626	A\$399
G.J. Gwynne	\$50	\$50
L.W. Peters	A\$50	A\$50
M.R. Doyle	\$50	\$50
A.C. Hill	\$50	\$50

*Note – Executive Directors do not receive Director's fees. Executive remuneration includes salary, superannuation, bonus payments, retirement allowances and provision of a vehicle received in their capacity as employees.

Remuneration of Employees

The number of employees (not including Directors) whose remuneration exceeded \$100,000 is as follows:-



\$000	2004	2003
100-110	17	11
110-120	9	8
120-130	10	5
130-140	3	6
140-150	5	4
150-160	4	1
160-170	1	2
170-180	2	1
190-200	1	1
200-210	2	2
210-220	-	1
220-230	-	2
230-240	2	-
240-250	1	1
250-260	1	-
360-370	1	-

Australian remuneration has been converted into New Zealand dollars at the exchange rate used for translating the Australian profits into New Zealand dollars, 0.88 (2003 – 0.89). Canadian remuneration on the same basis at 0.84 (2003 – 0.80).

Information on Directors

The qualifications and experience of the Directors are shown on pages 26 and 27.

The Directors are responsible for the preparation of the financial statements and other information included in this Annual Report. The financial statements have been

prepared in conformity with generally accepted accounting principles to give a true and fair view of the financial position of the Company and Group and the results of their operations and cash flows.

The Company appoints independent chartered accountants to audit the Financial Statements prepared by the Directors and to express an opinion on these Financial Statements. The independent auditor's report, which sets out their opinion and the basis of that opinion is set out on page 30 of this report.

Donations

The total of donations made during the year amounted to \$25,000.

Annual Report Awards

The Company was delighted to receive a number of awards for its 2003 Annual Report.



In the Annual Report Awards competition conducted by the Institute of Chartered Accountants of New Zealand, the Company won the top award in the "Other Companies" section. MHI has won this division for five out of the last six years with a commendation being received in 2002. The company was also a finalist in the special award categories of "Corporate Governance reporting" and "Human Resource reporting".

In addition, the Company was also awarded a silver award for the second consecutive year in the prestigious Australasian Reporting Awards, which covers all companies in both Australia and New Zealand.

The Board again extends its congratulations to the dedicated team who compiled and designed last year's report.

On behalf of the Directors,

Michael Hill

R.M. Hill

M.R. Parsell

M.R. Parsell

Auditors' Report to the shareholders of Michael Hill International Limited

We have audited the financial statements on pages 32 to 44. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2004 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 36 and 37.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2004 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors and providing taxation and other assurance services.

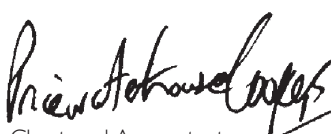
Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 32 to 44
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the Company and Group as at 30 June 2004 and their financial performance and cash flows for the year ended on that date.


Our audit was completed on 19 August 2004 and our unqualified opinion is expressed as at that date.



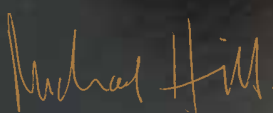
Chartered Accountants
Auckland

FINANCIAL STATEMENTS

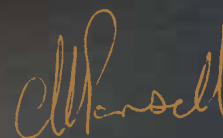
- 32 Statements of Financial Performance
- 32 Statements of Movements in Equity
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- 35 Statements of Cash Flows
- 36 Notes to the Financial Statements



THE DIRECTORS ARE PLEASED TO PRESENT THE FINANCIAL STATEMENTS OF MICHAEL HILL INTERNATIONAL LIMITED FOR THE YEAR ENDED 30 JUNE 2004. THE BOARD OF DIRECTORS OF MICHAEL HILL INTERNATIONAL LIMITED AUTHORISED THESE FINANCIAL STATEMENTS FOR ISSUE ON 19 AUGUST 2004.



Michael Hill
Chairman of Directors



Mike Parsell
Chief Executive Officer/Director

Dated 19 August 2004

Statements of Financial Performance

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
Revenue	2	259,777	224,802	7,486	15,000
Expenses	3	(237,714)	(208,165)	(859)	(806)
Surplus before taxation		22,063	16,637	6,627	14,194
Income tax expense	4	(7,003)	(5,067)	280	261
Surplus for the year		\$ 15,060	\$ 11,570	\$ 6,907	\$ 14,455

Statements of Movements in Equity

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
Equity - Balance at beginning of year		50,048	53,328	12,464	12,587
Surplus for the year	9	15,060	11,570	6,907	14,455
Foreign currency translation reserve movement	8	(1,014)	(272)	0	0
Exercise of options		366	0	366	0
Treasury stock movement	6/9	91	(312)	91	(312)
Total recognised revenue and expenses for the year		14,503	10,986	7,364	14,143
Dividends paid to shareholders	10	(6,944)	(14,266)	(6,944)	(14,266)
Equity - Balance at end of year		\$ 57,607	\$ 50,048	\$ 12,884	\$ 12,464



These statements are to be read in conjunction with the Notes on pages 36 - 44 and the Audit Report on page 30.

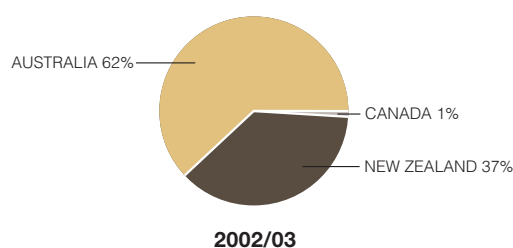
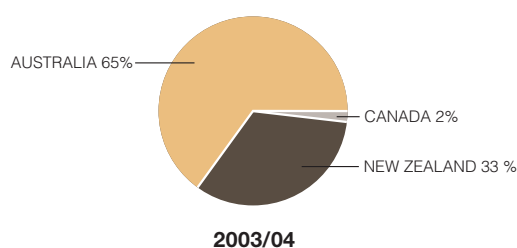
Statements of Segmented Results

for the year ended 30 June 2004

	MHJ NEW ZEALAND			MHJ AUSTRALIA			MHJ CANADA			GROUP		
	2004 \$000	2003 \$000	+/- %	2004 \$000	2003 \$000	+/- %	2004 \$000	2003 \$000	+/- %	2004 \$000	2003 \$000	+/- %
Operating revenue												
Total revenue	86,711	83,849	3.4%	168,404	139,996	20.3%	5,860	2,308	153.9%	260,975	226,153	15.4%
Intersegment sales		(65)		(1,198)	(1,286)					(1,198)	(1,351)	
Sales to customers	86,711	83,784		167,206	138,710		5,860	2,308		259,777	224,802	15.6%
Segment results												
Operating	11,009	10,644	3.4%	18,160	12,377	46.7%	(1,366)	(1,802)	-24.2%	27,803	21,219	31.0%
As % of revenue	12.7%	12.7%		10.9%	8.9%		-23.3%	-78.1%		10.7%	9.4%	
Sale of AU Head Office building	0	0		0	1,541					0	1,541	
	11,009	10,644		18,160	13,918		(1,366)	(1,802)		27,803	22,760	
As % of revenue	12.7%	12.7%		10.9%	10.0%		-23.3%	-78.1%				
Unallocated expenses										(12,743)	(11,190)	
Surplus for the year										\$ 15,060	\$ 11,570	30.2%
Segment assets	38,251	30,004		78,238	72,453		4,851	5,195		121,340	107,652	
Unallocated assets										1,491	1,576	
Total assets										\$ 122,831	\$ 109,228	12.5%
Segment liabilities	7,470	5,405		57,873	53,520		143	213		65,486	59,138	
Unallocated liabilities										(262)	42	
Total liabilities										\$ 65,224	\$ 59,180	10.2%

- Notes:**
1. The Company operates in three (2003 - three) geographical segments - New Zealand, Australia and Canada.
 2. The Company's business relates solely to jewellery retailing and manufacturing.
 3. Intersegment pricing is at arms length or market value.
 4. Unallocated expenses comprise interest, taxation and unallocated corporate costs.
 5. Operations commenced in Canada in September 2002.

OPERATING REVENUE BY COUNTRY



These statements are to be read in conjunction with the Notes on pages 36 - 44 and the Audit Report on page 30.

Statements of Financial Position

as at 30 June 2004

	NOTES	GROUP		PARENT	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
Equity					
Share capital	5	8,078	7,712	8,078	7,712
Treasury stock	6	(595)	(700)	(595)	(700)
Reserves	8	197	1,211	3,650	3,650
Retained earnings	9	49,927	41,825	1,751	1,802
Total equity		57,607	50,048	12,884	12,464
Non-current liabilities					
Deferred taxation	12	0	0	3	4
Term liabilities	13	40,604	42,299	0	0
Employee entitlements		1,487	1,179	0	0
Total non-current liabilities		42,091	43,478	3	4
Current liabilities					
Bank overdraft		0	0	7	4
Trade creditors		9,102	6,179	0	0
Accruals and provisions	14	12,880	9,351	46	44
Term liabilities repayable within twelve months	13	0	172	0	0
Taxation payable		1,151	0	0	0
Total current liabilities		23,133	15,702	53	48
Total equity and liabilities		\$ 122,831	\$ 109,228	\$ 12,940	\$ 12,516
Non-current assets					
Fixed assets	15	21,394	21,877	60	64
Investments	16	0	0	12,802	12,359
Future income tax benefit	12	2,225	1,598	0	0
Expenditure carried forward	17	8	12	0	0
Goodwill on consolidation		214	286	0	0
Total non-current assets		23,841	23,773	12,862	12,423
Current assets					
Cash on hand		14,017	2,294	0	0
Trade debtors	18	15,868	16,248	0	0
Other debtors and prepayments		1,643	2,386	0	0
Inventories	19	67,462	63,694	0	0
Taxation receivable		0	833	78	93
Total current assets		98,990	85,455	78	93
Total assets		\$ 122,831	\$ 109,228	\$ 12,940	\$ 12,516

These statements are to be read in conjunction with the Notes on pages 36 - 44 and the Audit Report on page 30.

Statements of Cash Flows

for the year ended 30 June 2004

	NOTES	GROUP		PARENT	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
Cash flows from operating activities					
Cash was provided from:					
Receipts from customers		261,855	240,854	0	0
Dividends received		0	0	7,486	15,000
Interest received		176	55	0	0
Miscellaneous receipts		599	219	0	0
Rent received		4	4	0	0
Cash was applied to:					
Payments to suppliers and employees		(230,077)	(225,027)	(1,143)	(726)
Interest paid - short term		(153)	(219)	(1)	(1)
- long term		(2,796)	(2,271)	0	0
Income tax paid		(4,806)	(6,627)	294	332
Net goods and services tax paid		(23)	(199)	0	0
Net cash flow from operating activities	25	\$ 24,779	\$ 6,789	\$ 6,636	\$ 14,605
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sales of fixed assets		250	163	0	0
Proceeds from property intended for sale		0	5,172	0	0
Lease proceeds		35	137	0	0
Cash was applied to:					
Purchase of fixed assets		(6,409)	(10,313)	(27)	0
Net cash used in investing activities		(\$ 6,124)	(\$ 4,841)	(\$ 27)	\$ 0
Cash flows from financing activities					
Cash was provided from:					
Proceeds of long term debt		0	15,805	0	0
Proceeds of short term debt		6,593	5,747	0	0
Proceeds of Treasury stock		125	112	0	112
Proceeds from option exercised		366	0	366	0
Cash was applied to:					
Dividends paid		(6,944)	(14,266)	(6,944)	(14,266)
Repayment of long term debt		0	(1,149)	0	0
Repayment of short term debt		(6,593)	(5,747)	0	0
Purchase of Treasury stock		(34)	(424)	(34)	(424)
Net cash flow used in financing activities		(\$ 6,487)	\$ 78	(\$ 6,612)	(\$ 14,578)
Net (decrease) / increase in cash held		12,168	2,026	(3)	27
Effect of exchange rate changes on cash		(445)	(417)	0	0
Add cash at beginning of year		2,294	685	(4)	(31)
Cash at end of year		\$ 14,017	\$ 2,294	(\$ 7)	(\$ 4)

These statements are to be read in conjunction with the Notes on pages 36 - 44 and the Audit Report on page 30.



Notes to the Financial Statements

1 STATEMENT OF ACCOUNTING POLICIES

Michael Hill International Limited is a public company registered under the Companies Act 1993 and is listed on the New Zealand Stock Exchange.

The financial statements are those of Michael Hill International Limited and its subsidiaries and are prepared and presented in accordance with the Companies Act 1993 and the Financial reporting Act 1993.

General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of results, cashflows and the financial position under the historical cost method, as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements.

Accounting Policies

The following accounting policies which significantly affect the measurement of financial performance, financial position and cash flows have been applied:

- a) Sales**
Sales shown in the Statements of Financial Performance comprises amounts received and receivable from retail sales and amounts receivable on layby sales in the ordinary course of business. Sales are stated exclusive of Goods and Services Tax collected from customers.
- b) Principles of Consolidation**
The consolidated financial statements are prepared from the audited accounts of the Parent Company and its Subsidiaries as at 30 June 2004 using the purchase method. All significant transactions between Group Companies are eliminated on consolidation.
- c) Fixed Assets**
The cost of purchased fixed assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.
- d) Depreciation**
Depreciation is charged on a straight-line basis so as to write off the cost of the fixed assets, to their estimated residual value, over their expected useful lives. The useful lives of the major classes of assets have been estimated as follows:
- | | |
|------------------------|-------------|
| Buildings | 40-50 years |
| Plant & Equipment | 5-6 years |
| Motor Vehicles | 5-6 years |
| Furniture & Fittings | 6 years |
| Leasehold Improvements | 6-10 years |
- e) Keymoney**
Keymoney paid upon acquisition of shop leases is written off on a straight-line basis over the first term of the lease.
- f) Goodwill**
Goodwill represents the excess of the acquisition cost of businesses and subsidiary companies over the fair values of the identifiable net assets at the dates of acquisition. Goodwill is amortised to the Statement of Financial Performance on a straight-line basis over the shorter of its estimated useful life or twenty years.
- g) Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost is principally determined on a weighted average basis and in the case of manufactured goods includes direct materials, labour and production overheads appropriate to the stage of completion attained. Some inventories are subject to reservation of title.
- h) Debtors**
Debtors are stated at expected realisable value after providing for an estimate of income on layby sales which may not be realised due to cancellation of layby contracts in subsequent accounting periods. Imputed interest has been deducted from Australian credit sales and will be recognised on a time proportional basis.
- i) Tax**
The tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules. The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method. A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.
- j) Statement of Cash Flows**
The following are the definition of the terms used in the Statement of Cash Flows:
- i) Cash means coins and notes, demand deposits and other highly liquid investments in which the Group has invested as part of its day-to-day cash management. Cash includes liabilities which are the negative form of the above, such as the bank overdraft. Cash does not include accounts receivable or payable, or any borrowing subject to a term facility.
 - ii) Operating activities includes all transactions and other events that are not investing or financing activities.
 - iii) Investing activities are those activities relating to the acquisition holding and disposal of fixed assets and of investments. Investments can include securities not falling within the definition of cash.
 - iv) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- k) Foreign Currency Transactions**
Transactions in foreign currencies are converted to New Zealand dollars at the rates of exchange ruling on the dates of the transactions. Amounts receivable and payable in foreign currencies are translated to New Zealand dollars at the rates of exchange ruling at

Notes to the Financial Statements CONTINUED

balance date or, where forward exchange cover has been obtained, at the settlement rate. Realised and unrealised gains and losses arising from exchange rate fluctuations in foreign currencies are included in the Statements of Financial Performance.

Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the time of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at the rates of exchange ruling at balance date.

Exchange differences arising from the translation of independent foreign operations are recognised in the foreign currency translation reserve.

l) Leased Assets

Operating lease payments and revenue are representative of the pattern of benefits derived from

leased assets and accordingly are recognised in the Statements of Financial Performance in the periods in which they are incurred.

m) Financial Instruments

Financial Instruments with off-balance sheet risk, have been entered into for the primary purpose of reducing exposure to fluctuation in interest rates. While financial instruments are subject to risk that market rates may change subsequent to acquisition, such changes would generally be offset by opposite effects on the items hedged.

Changes in Accounting Policies and Recently Issued Accounting Standards

Certain comparatives have been amended to conform with the current year's presentation.

There have been no other changes in accounting policies.

2 OPERATING REVENUE

Trading revenue	
Other income:	
Interest	
Rental Income	
Gain on sale of fixed assets	
Dividends received from subsidiaries	

GROUP		PARENT	
2004	2003	2004	2003
\$000	\$000	\$000	\$000
259,777	224,802	0	0
1,114	457	0	0
4	4	0	0
0	1,541	0	0
0	0	7,486	15,000

3 OPERATING EXPENSES

Fees paid to PricewaterhouseCoopers	
Audit fees	
Other assurance fees	
Taxation compliance fees	
Depreciation	
Plant	
Equipment	
Furniture & fittings	
Motor vehicles	
Leasehold improvements	
Directors' fees	
Expenditure carried forward written off	
Goodwill on consolidation written off	
Interest - Fixed loans	
- Other	
Increase / (decrease) in laybys provision	
Rental and operating lease costs	
Net foreign exchange loss / (gain)	
Donations	
Loss on sale of fixed assets	

GROUP		PARENT	
2004	2003	2004	2003
\$000	\$000	\$000	\$000
176	176	0	8
0	5	0	1
204	315	0	51
6,025	5,070	31	22
410	340	1	1
1,317	1,219	3	3
1,034	934	0	0
297	275	27	18
2,967	2,302	0	0
201	210	201	210
4	23	0	0
71	72	0	0
2,708	2,457	0	0
135	220	1	1
345	117	0	0
17,419	15,131	0	0
(18)	293	0	0
25	34	25	31
66	142	0	0

Notes to the Financial Statements CONTINUED

	GROUP		PARENT	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
4 INCOME TAX EXPENSE				
The taxation provision has been calculated as follows				
Surplus for the year	\$ 22,063	\$ 16,637	\$ 6,627	\$ 14,194
Taxation on surplus for the year at 33%	7,281	5,490	2,187	4,684
Plus / (less)				
Non-assessable income	0	(555)	(2,470)	(4,950)
Non-deductible expenditure	47	303	0	5
Under / (over) provision in prior years	(8)	(80)	3	0
Losses not recognised	0	26	0	0
Effect of difference in Australian tax rate (33% to 30%)	(317)	(117)	0	0
	\$ 7,003	\$ 5,067	(\$ 280)	(\$ 261)
The taxation charge is represented by:				
Tax payable in respect of current year	7,685	5,510	(282)	(260)
Underestimation in prior year	(8)	(80)	3	0
Deferred taxation	(674)	(363)	(1)	(1)
	\$ 7,003	\$ 5,067	(\$ 280)	(\$ 261)

	PARENT	
	2004 \$000	2003 \$000
5 SHARE CAPITAL		
Issued and paid in capital - 38,658,600 ordinary shares (2003 - 38,558,600)	\$ 8,078	\$ 7,712

On the 16 February 2004 100,00 options were exercised at an exercise price of \$3.66 per share.
All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

Share Options

On the 9th October 2000, the Directors authorised the issue of 750,000 options to subscribe for Ordinary shares in the Company to five senior management personnel in the Company, including 300,000 to Mike Parsell in his capacity of CEO of the Company. The issue of options for Mike Parsell was subject to the approval of shareholders at the Annual meeting on the 17th November 2000, in accordance with the Company's constitution. The motion to issue options to Mike Parsell was passed at the Annual meeting. The exercise price of \$3.66 for all 750,000 options was set at 15% above the average weighted price of the Company's ordinary shares over the calendar month following the announcement by the Company to the New Zealand Stock Exchange of its results for the year ended 30 June 2000.

The options may be exercised in the period from 1 July 2003 to 30 June 2006 on the following basis:

- 1) In the period 1 July 2003 to 30 June 2004, the option holder may not exercise more than 25% of the entitlement.
- 2) In the period 1 July 2004 to 30 June 2005, the option holder may exercise the aggregate of 25% of his entitlement and any part of his entitlement not exercised in the previous period, so that not more than 50% of the option holder's entitlement is exercised prior to 30 June 2005.
- 3) In the period 1 July 2005 to 30 June 2006, the option holder may exercise such of his entitlement as has not previously been exercised.

The value of the options was calculated using the Black-Scholes Option valuation model and the value of the options at the time of granting was NZ\$36,450 for the options available to Mike Parsell and NZ\$40,800 collectively for the other four option holders.

On the 22nd August 2002, the Directors authorised the issue of a further 200,000 options to two senior management personnel in the company, including 100,000 to Emma Hill in her capacity of General Manager Canada. The issue of options for Emma Hill was subject to the approval of shareholders at the Annual meeting on the 28th November 2002, in accordance with the Company's constitution. The motion to issue options to Emma Hill was passed at the Annual meeting.

The exercise price for these options was set at \$6.15 which was 15% above the weighted average price of the Company's ordinary shares over the calendar month following the announcement by the Company to the New Zealand Stock Exchange of its results for the year ended 30 June 2002.

These options may be exercised in the period 1 July 2005 to 30 June 2008 on the following basis:

- 1) In the period 1 July 2005 to 30 June 2006, the option holder may not exercise more than 25% of the entitlement.
- 2) In the period 1 July 2006 to 30 June 2007, the option holder may exercise the aggregate of the 25% of their entitlement and any part of their entitlement not exercised in the previous period, so that not more than 50% of the option holders' entitlement is exercised prior to 30 June 2005.
- 3) In the period 1 July 2007 to 30 June 2008, the option holder may exercise such of their entitlement as has not previously been exercised.

The value of these options was calculated using the Black-Scholes Option valuation model and the value of the options at the time of granting was NZ\$42,000 collectively for the two option holders.

Notes to the Financial Statements CONTINUED

	GROUP		PARENT	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
6 TREASURY STOCK				
Treasury stock at beginning of year	700	415	700	415
Treasury stock acquired through the year	34	424	34	424
Allocated to employee share ownership plan including discount	(139)	(139)	(139)	(139)
Treasury stock at end of year	\$ 595	\$ 700	\$ 595	\$ 700

Michael Hill International Limited acquired 7,745 (2003 - 80,000) shares through on-market purchases on the New Zealand Stock Exchange during the year. The total amount paid to acquire the shares was \$34,228 (2003 - \$424,000), this being an average purchase price of \$4.42 (2003 - \$5.30) per share.

During the year 26,095 (2003 - 27,810) shares were issued to the Michael Hill Employee Share Ownership Plan at an average price of \$4.79 (2003 - \$4.04).

7 EMPLOYEE SHARE OWNERSHIP PLAN**The Plan**

The Michael Hill International Limited Employee Share Scheme was established by Michael Hill International Limited in 2001 to assist employees to become shareholders of the Company. Employees are able to purchase shares in MHI at a 10% discount to average market price over the two weeks prior to the invitation to purchase. The shares will be held by a Trustee for a one year period during which time any dividends derived will be paid to the employee.

Shares held by the Plan

The Plan held the following ordinary shares at the end of the year:

	2004	2003
Allocated to employees (fully paid)	26,095	27,810
Not yet allocated to employees	121,088	139,438
	147,183	167,248

Control of the Scheme

The Trustees are Mike Parsell and Murray Doyle, both Directors of Michael Hill International Limited and Wayne Butler, Company Secretary. The Trustees are appointed by the Company's Board of Directors.

	GROUP		PARENT	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
8 RESERVES				
Balances				
Share premium reserve	3,650	3,650	3,650	3,650
Foreign currency translation reserve	(3,453)	(2,439)	0	0
	\$ 197	\$ 1,211	\$ 3,650	\$ 3,650
Movements in reserves during the year were as follows:				
Share premium reserve				
Opening and closing balance	\$ 3,650	\$ 3,650	\$ 3,650	\$ 3,650
Foreign currency translation reserve				
Balance at beginning of year	(2,439)	(2,167)	0	0
Foreign exchange gain / (loss) on translation of net assets of Australian and Canadian Subsidiaries	(1,014)	(272)	0	0
Balance at end of year	(3,453)	(\$ 2,439)	\$ 0	\$ 0

	GROUP		PARENT	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
9 RETAINED EARNINGS				
Balance at beginning of year	41,825	44,548	1,802	1,640
Surplus for the year	15,060	11,570	6,907	14,455
Dividends	(6,944)	(14,266)	(6,944)	(14,266)
Discount on sale of Treasury Stock	(14)	(27)	(14)	(27)
Balance at end of year	\$ 49,927	\$ 41,825	\$ 1,751	\$ 1,802

Notes to the Financial Statements CONTINUED

	GROUP & PARENT COMPANY	
	2004	2003
	\$000	\$000
10 DIVIDENDS PAID AND DECLARED		
Interim: paid on 29 March 2004	3,087	2,694
Final dividend 2003 paid 23 October 2003	3,857	3,862
Special dividend paid 14 October 2002	0	7,710
	\$ 6,944	\$ 14,266

The Directors have declared a final dividend post year end of 13.0 cents per share to be paid for the year ended 30 June 2004 out of tax paid profits, on 18 October 2004. An interim dividend of 8.0 cents per share was paid on 29 March 2004. Full imputation credits attach to both dividends. Non-resident Shareholders also receive supplementary dividends. The Company receives a tax credit equal to the amount of these supplementary dividends.

	GROUP & PARENT COMPANY	
	2004	2003
	\$000	\$000
11 IMPUTATION CREDIT ACCOUNT		
Balance at beginning of year	1,398	1,204
Plus - Income tax paid	(385)	(333)
- Imputation credits attached to dividends received	3,687	7,388
Less - Imputation credits attached to dividends paid to shareholders	(3,290)	(6,861)
Balance at end of year	\$ 1,410	\$ 1,398
Imputation credits directly and indirectly available to members as at 30 June 2004		
Parent	1,410	1,398
Subsidiaries	746	305
	\$ 2,156	\$ 1,703

	GROUP		PARENT	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
12 FUTURE INCOME TAX BENEFIT / (DEFERRED TAXATION)				
Opening Balance	1,598	1,061	(4)	(6)
Plus / (less) - Movement in current year	674	363	1	(1)
Plus / (less) - Prior period adjustment	9	185	0	3
Plus / (less) - Effect of exchange rate change on Australian opening balance	(56)	(11)	0	0
	\$ 2,225	\$ 1,598	(\$ 3)	(\$ 4)

	GROUP		PARENT	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
13 TERM LIABILITIES				
Non-current borrowings				
Secured bank loans	40,604	42,299	0	0
Borrowings due within 12 months				
Secured bank loans	0	172	0	0
	\$ 40,604	\$ 42,471	\$ 0	\$ 0

These advances, together with the bank overdraft, are secured by floating charges over all the Group's assets. The Group utilises bank bills for financing the operations of the business. The ANZ Bank regards this finance as long term, subject to satisfactory annual reviews of the Group's operations. Interest rates applying 2004 - 5.1% to 7.0% (2003 - 4.9% to 7.0%).



Notes to the Financial Statements CONTINUED

	GROUP		PARENT	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
14 ACCRUALS AND PROVISIONS				
Employee entitlements	6,449	4,940	0	0
Other accruals	6,431	4,411	46	44
	\$ 12,880	\$ 9,351	\$ 46	\$ 44

	2004			2003		
	COST \$000	ACCUM DEPREC \$000	BOOK VALUE \$000	COST \$000	ACCUM DEPREC \$000	BOOK VALUE \$000
15 FIXED ASSETS						
Group						
Plant	3,378	2,241	1,137	3,245	1,953	1,292
Equipment	12,669	8,913	3,756	11,633	7,879	3,754
Furniture and fittings	10,042	6,124	3,918	9,433	5,445	3,988
Motor vehicles	1,831	529	1,302	1,794	457	1,337
Leasehold improvements	22,963	11,682	11,281	21,168	9,662	11,506
	\$ 50,883	\$ 29,489	\$ 21,394	\$ 47,273	\$ 25,396	\$ 21,877
Parent Company						
Plant	6	4	2	5	4	1
Equipment	16	14	2	16	11	5
Motor vehicles	136	80	56	89	31	58
	\$ 158	\$ 98	\$ 60	\$ 110	\$ 46	\$ 64

The above assets provide a floating security for bank loans, as well as mortgage security over term loans. (Refer note 13)

	GROUP		PARENT	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
16 INVESTMENTS IN SUBSIDIARIES				
Subsidiary companies				
Shares at cost	0	0	2,800	2,800
Plus advance to subsidiaries	0	0	10,002	9,559
	\$ 0	\$ 0	\$ 12,802	\$ 12,359

The subsidiary companies are:

	ACTIVITY	COUNTRY OF INCORPORATION	SHAREHOLDING
Michael Hill Jeweller Limited	Jewellery Retailer and Manufacturer	NZ	100%
Michael & Company Limited (formerly Michael Hill Shoes Limited)	Franchise Holding Company	NZ	100%
Michael Hill Jeweller (Australia) Pty Limited	Jewellery Retailer	Australia	100%
Michael Hill (Wholesale) Pty Limited	Jewellery Wholesaler	Australia	100%
Michael Hill Manufacturing Pty Limited	Jewellery Manufacturer	Australia	100%
Michael Hill Trustee Company Limited	Trustee for staff share purchase scheme	NZ	100%
Michael Hill Jeweller Limited	Jewellery Retailer	Canada	100%

There were no subsidiary companies purchased or sold during the year ended 30 June 2004.

All subsidiaries have a 30 June balance date.

Michael Hill Jeweller Ltd was incorporated in Canada on the 18th April 2002.

Notes to the Financial Statements CONTINUED

	GROUP		PARENT	
	2004	2003	2004	2003
17 EXPENDITURE CARRIED FORWARD	\$000	\$000	\$000	\$000
Key money	8	12	0	0
	\$ 8	\$ 12	\$ 0	\$ 0

	GROUP		PARENT	
	2004	2003	2004	2003
18 TRADE DEBTORS	\$000	\$000	\$000	\$000
Trade debtors	16,972	17,413	0	0
Less laybys provision	(294)	(465)	0	0
Less provision for unearned income	(810)	(700)	0	0
	\$ 15,868	\$ 16,248	\$ 0	\$ 0

Trade debtors include an amount of \$6,771,884 (2003 - \$8,305,000) which is guaranteed under a financing arrangement by a third party.

	GROUP		PARENT	
	2004	2003	2004	2003
19 INVENTORIES	\$000	\$000	\$000	\$000
Raw materials	4,013	3,596	0	0
Finished goods	59,116	55,886	0	0
Consumables	4,333	4,212	0	0
	\$ 67,462	\$ 63,694	\$ 0	\$ 0

20 CAPITAL COMMITMENTS

The Group and the Parent Company have no capital commitments at 30 June 2004 (2003 - Nil).

	GROUP		PARENT	
	2004	2003	2004	2003
21 CONTINGENT LIABILITIES	\$000	\$000	\$000	\$000
Guarantees to bankers and other financial institutions of subsidiary companies overdraft facilities and fixed assets	\$ 45,136	\$ 45,419	\$ 45,110	\$ 45,392

The Group and Parent Company have no other material contingent liabilities as at 30 June 2004 (2003 - nil).

	GROUP		PARENT	
	2004	2003	2004	2003
22 OPERATING LEASE OBLIGATIONS	\$000	\$000	\$000	\$000
Obligations payable after balance date on non-cancellable operating leases are as follows:				
Within one year	14,193	12,248	0	0
One to two years	12,801	11,022	0	0
Two to five years	25,805	22,200	0	0
Over five years	6,318	7,606	0	0
	\$ 59,117	\$ 53,076	\$ 0	\$ 0

Notes to the Financial Statements CONTINUED

23 RELATED PARTY TRANSACTIONS

Executive Directors are remunerated in their capacity as full-time employees of the Company. Directors' interests in the Company's shares are disclosed on page 45 of the Annual Report. Directors' received dividends on their holdings on the same terms as other shareholders. Emma Hill, daughter of Michael and Christine Hill, is remunerated as a full time manager of the company. The parent has received dividends from its subsidiaries as disclosed in note 2. Michael Hill Jeweller Ltd received dividends and interest from its subsidiaries during the year.

24 FINANCIAL INSTRUMENTS

(a) Currency and interest rate risk

Nature of activities and management policies with respect to financial instruments.

(i) Currency

The group undertakes transactions denominated in foreign currencies from time to time and resulting from these activities exposures in foreign currency arise.

Foreign currency transactions are settled on the day they fall due at the exchange rate of the day. The Group uses forward exchange contracts to manage these exposures, from time to time.

Contracts outstanding at 30 June 2004 are \$ Nil (2003 - \$ Nil).

(ii) Interest rate

The Group has a long term borrowing facility utilising three to six months bank bills. Forward rate agreements are utilised from time to time to hedge against interest rate fluctuations. The principal amount of Forward Rate Agreements outstanding at balance date was \$ 18,351,468 (2003 - \$ 19,195,000). The cash settlement requirements of Forward Rate Agreements have a market value of \$ 143,976 (2003 - \$ 576,686).

Settlement amounts on maturity of Forward Rate Agreements are amortised over the period of the underlying liability by the financial instrument.

(iii) Repricing analysis

Cash on hand, debtors, expenditure carried forward, creditors and proposed dividends have been excluded in the tables below as they are not interest rate sensitive.

Group repricing maturities - 2004	EFFECTIVE INTEREST RATES	\$000	\$000	\$000	\$000	\$000
		LESS THAN 6 MONTHS	6 TO 12 MONTHS	1 TO 2 YEARS	2 TO 5 YEARS	TOTAL
Liabilities						
Term liabilities	5.85%	11,593	10,659	18,352	0	40,604
Total liabilities		11,593	10,659	18,352	0	40,604
Off Balance Sheet forward rate agreements		0	0	(18,352)	0	(18,352)
Repricing gap		11,593	10,659	0	0	22,252

Group repricing maturities - 2003	EFFECTIVE INTEREST RATES	\$000	\$000	\$000	\$000	\$000
		LESS THAN 6 MONTHS	6 TO 12 MONTHS	1 TO 2 YEARS	2 TO 5 YEARS	TOTAL
Liabilities						
Term liabilities	5.33%	8,333	3,448	10,575	20,115	42,471
Total liabilities		8,333	3,448	10,575	20,115	42,471
Off Balance Sheet forward rate agreements		0	0	0	(19,195)	(19,195)
Repricing gap		8,333	3,448	10,575	920	23,276

Parent Company financial assets and liabilities comprise investments, creditors and dividends payable which are not interest rate sensitive. The bank overdraft at 30 June 2004 is \$7,021 (2003 - \$3,671). Commercial bill facilities are currently utilised by the Group on 90 day terms, but are regarded by the bank as long term arrangements.

(iv) Credit

In the normal course of its business the Group incurs credit risk from trade debtors and other institutions. There are no significant concentrations of credit risk. The Group has a credit policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis.

(b) Fair Values

The Group's financial assets and liabilities have estimated fair values equivalent to carrying value, with the exception of forward rate agreements with fair values disclosed in part (a) (ii) of this note.

Notes to the Financial Statements CONTINUED

	GROUP		PARENT	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
25 RECONCILIATION OF SURPLUS AFTER TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES				
Reported surplus after taxation as per Statement of Financial Performance	15,060	11,570	6,907	14,455
Add / (less) items classified as investing or financial activities				
Loss / (gain) on sale of fixed assets	65	142	0	0
Gain on sale of property intended for sale	0	(1,541)	0	0
Add / (less) non cash items				
Depreciation	6,025	5,070	31	22
Foreign currency movement	100	712	0	0
Deferred taxation	170	328	1	(2)
Amortisation of goodwill	71	72	0	0
Amortisation of expenditure carried forward	5	22	0	0
Add / (less) movements in working capital items				
Taxation payable	1,978	(984)	(15)	73
Debtors and prepayments	(366)	(5,086)	0	0
Creditors and accruals	(5,570)	(5,104)	(288)	52
Inventories	7,241	1,588	0	5
Net cash flows from operating activities	\$ 24,779	\$ 6,789	\$ 6,636	\$ 14,605

26 EVENTS OCCURRING AFTER BALANCE DATE

There were no significant events occurring after 30 June 2004.



Analysis of Shareholding

TWENTY LARGEST SHAREHOLDERS AS AT 24 AUGUST 2004

	ORDINARY SHARES	% OF SHARES
R.M. Hill, A.C. Hill, R.M.J. Urlich (as trustees)	10,116,260	26.17
D.W.Hewitt, R.M.J. Urlich (as trustees)	8,446,636	21.85
The Trustees, Executors and Agency Co. of N.Z.	1,985,111	5.14
Accident Compensation Corporation	1,622,667	4.2
Peters MacGregor Pty Ltd.	736,700	1.91
NZ Superannuation Fund Nominees Limited	717,615	1.86
Forbar Custodians Ltd	665,864	1.72
AMP Investments Strategic Equity Growth Fund	482,891	1.25
GMS Group Nominees Pty Ltd	381,000	0.99
Forbar Custodians Ltd	368,600	0.95
Peters MacGregor Pty Ltd.	363,300	0.94
R.M.Hill,A.C.Hill,R.M.J. Urlich (as trustees)	356,630	0.92
R.L.Parsell	356,025	0.92
AMP Life Ltd	284,989	0.74
Votraint No. 1019 Pty Ltd	275,000	0.71
Citibank Nominees (New Zealand) Ltd	241,246	0.62
NZGT Nominees Ltd - AIF Equity Fund	238,199	0.62
A.N. Presley/M.S. Dick	220,500	0.57
Hubbard Churcher Trust Management Ltd	150,700	0.39
Clare Stewart Mead	143,000	0.37
Total	28,152,933	72.84

SHAREHOLDING BY RANGE OF SHARES AS AT 24 AUGUST 2004

	NO. OF HOLDERS	% OF HOLDERS	NO. OF SHARES
1 - 999	1,067	31.05	514,071
1,000 - 4,999	1,901	55.32	3,726,340
5,000 - 9,999	277	8.06	1,711,450
10,000 & over	191	5.57	32,706,739
Total	3,436	100%	38,658,600

SUBSTANTIAL SECURITY HOLDERS

The following shareholders hold 5% or more of the issued capital of the Company and have filed notices with the Company under the Securities Amendment Act 1988 that they are substantial security holders in the Company.

	NO. OF ORDINARY SHARES
R.M.Hill, A.C.Hill, R.M.J. Urlich (as trustees)	10,116,260
D.W.Hewitt, R.M.J. Urlich (as trustees)	8,446,636
Lesley Wayne Peters	2,849,500
Fisher Funds Management Limited	2,336,111

Total number of ordinary shares on issue as at 24 August 2004 is 38,658,600.

DIRECTORS' & ASSOCIATED INTERESTS' SHARE HOLDINGS

The table below sets out the relevant interests in equity securities of Directors and Associated Persons of Directors at 30 June 2004, in terms of Listing Rule 10.5.3 of the New Zealand Exchange Listing Rules.

	RELEVANT INTEREST OF DIRECTOR	RELEVANT INTEREST OF ASSOCIATED PERSON
R.M. Hill & A.C. Hill	18,919,526	81,915
M.R. Parsell	326,089*	370,040
G.J. Gwynne	105,000	
L.W. Peters	2,849,500†	
M.R. Doyle		100,000

* includes 300,000 options.

† includes 1,749,500 ordinary shares in which Mr Peters does not have beneficial interest.



SHAREHOLDER INFORMATION

Information specifically for investors and shareholders is featured on our Website www.michaelhill.com. It includes our latest shareprice and historical share prices over the last six years, together with charts of our share price in comparison to the NZX50 over the last 12 months and 3 years. It also includes any announcements and powerpoint presentations made to Analysts and the Press at the time of the release of our half year and annual financial results to the New Zealand Stock Exchange each year. A copy of the Company's Constitution is also available on the website.

Any shareholders with queries relating to their shareholding or dividend payments, etc., should direct their enquiries to Computershare Investor Services Limited

Private Bag 92119

Auckland 1020

Phone 09 488 8777

FINANCIAL CALENDAR

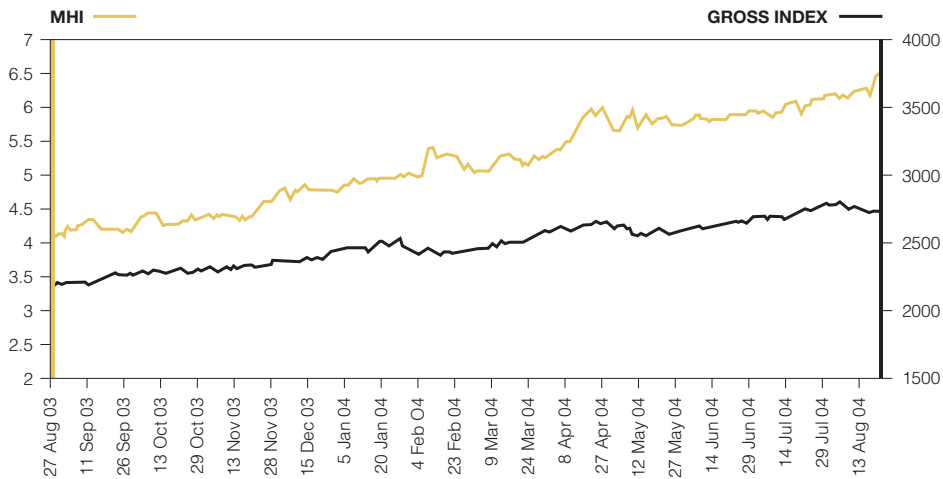
Annual Meeting:	Friday 5th November 2004 at 2pm Guineas Room Ellerslie Convention Centre Auckland
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Dividends payable:	Interim - March Final - October
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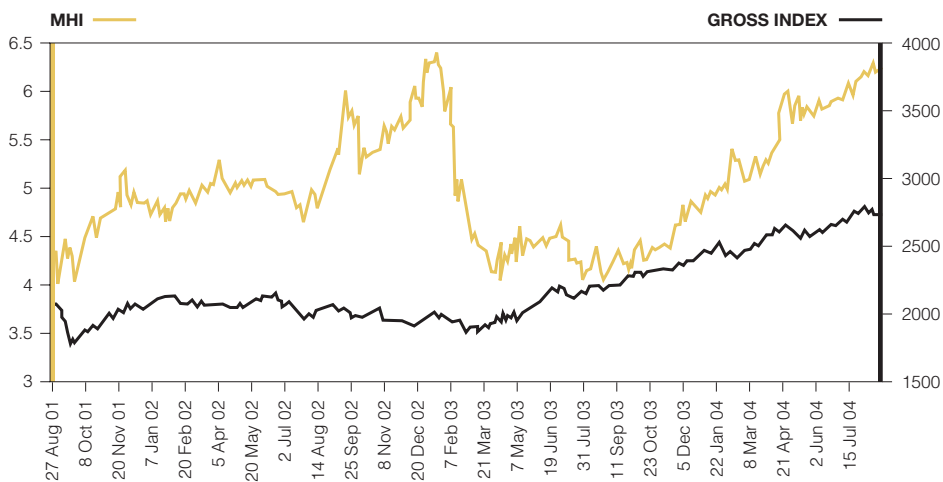
Financial Results announced:	Half year - February Annual - August
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SHARE PRICE PERFORMANCE

MHI Share Price vs NZX50 Gross Index - 1 Year



MHI Share Price vs NZX50 Gross Index - 3 Year



	HIGH	LOW	as at 30/6/04
PRICES FOR SHARES TRADED DURING THE YEAR	\$ 6.00	\$ 4.05	\$ 6.00

EIGHT YEAR COMPARATIVE REVIEW OF PRICES FOR SHARES AS AT 30 JUNE	2004	2003	2002	2001	2000	1999	1998	1997
	\$ 6.00	\$ 4.60	\$ 5.00	\$ 3.80	\$ 2.85	\$ 3.00	\$ 1.82	\$ 1.63

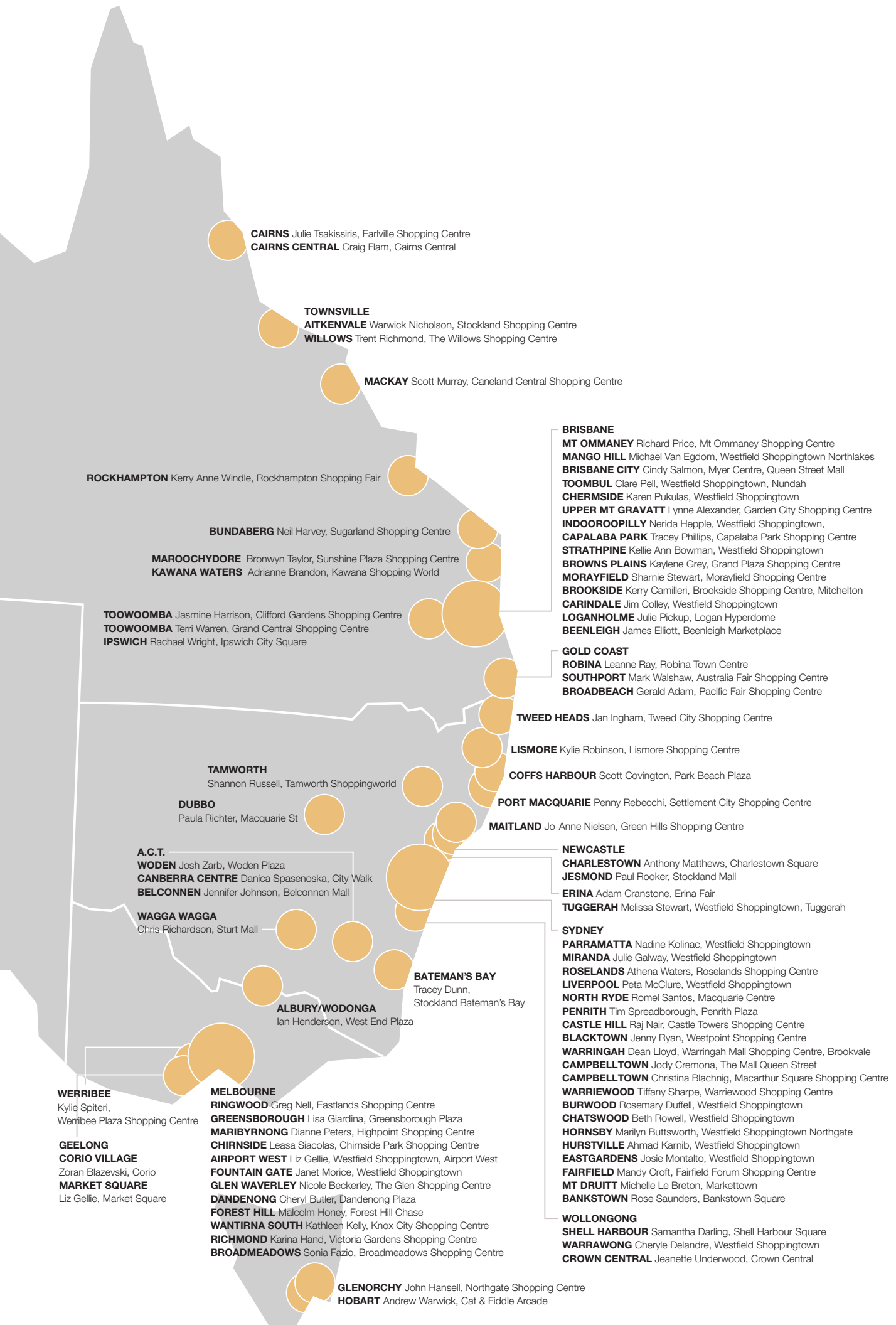
STORE Outlets



DARWIN
Kate McLean, Casuarina Square Shopping Centre

PERTH
MORLEY Daniela Ratta, Westfield Shoppingtown Galleria
CANNINGTON Wendy Maben, Westfield Shoppingtown Carousel
BOORAGOON Nicole Gericevich, Garden City Shopping Centre
ROCKINGHAM Kathy Vost, Rockingham Shopping Centre
KARRINYUP Zorica Tolj, Karrinyup Shopping Centre
WARWICK Tracy Taylor, Warwick Grove Shopping Centre
HILLARY'S Sandra Idel, Whitford City Shopping Centre

BUNBURY Dennis Stojkovic, Bunbury Forum Shopping Centre



CAIRNS Julie Tsakissiris, Earlville Shopping Centre
CAIRNS CENTRAL Craig Flam, Cairns Central

TOWNSVILLE
AITKENVALE Warwick Nicholson, Stockland Shopping Centre
WILLOWS Trent Richmond, The Willows Shopping Centre

MACKAY Scott Murray, Caneland Central Shopping Centre

ROCKHAMPTON Kerry Anne Windle, Rockhampton Shopping Fair

BUNDEBERG Neil Harvey, Sugarland Shopping Centre

MAROOCHYDORE Bronwyn Taylor, Sunshine Plaza Shopping Centre
KAWANA WATERS Adrienne Brandon, Kawana Shopping World

TOOWOOMBA Jasmine Harrison, Clifford Gardens Shopping Centre
TOOWOOMBA Terri Warren, Grand Central Shopping Centre
IPSWICH Rachael Wright, Ipswich City Square

TAMWORTH
 Shannon Russell, Tamworth Shoppingworld

DUBBO
 Paula Richter, Macquarie St

A.C.T.
WODEN Josh Zarb, Woden Plaza
CANBERRA CENTRE Danica Spasenoska, City Walk
BELCONNEN Jennifer Johnson, Belconnen Mall

WAGGA WAGGA
 Chris Richardson, Sturt Mall

BATEMAN'S BAY
 Tracey Dunn, Stockland Bateman's Bay

ALBURY/WODONGA
 Ian Henderson, West End Plaza

WERRIBEE
 Kylie Spiteri, Werribee Plaza Shopping Centre

GEELONG
CORIO VILLAGE
 Zoran Blazevski, Corio
MARKET SQUARE
 Liz Gellie, Market Square

MELBOURNE
RINGWOOD Greg Nell, Eastlands Shopping Centre
GREENSBOROUGH Lisa Giardina, Greensborough Plaza
MARIBYRNONG Dianne Peters, Highpoint Shopping Centre
CHIRNSIDE Leasa Siacolas, Chirnside Park Shopping Centre
AIRPORT WEST Liz Gellie, Westfield Shoppingtown, Airport West
FOUNTAIN GATE Janet Morice, Westfield Shoppingtown
GLEN WAVERLEY Nicole Beckerley, The Glen Shopping Centre
DANDENONG Cheryl Butler, Dandenong Plaza
FOREST HILL Malcolm Honey, Forest Hill Chase
WANTIRNA SOUTH Kathleen Kelly, Knox City Shopping Centre
RICHMOND Karina Hand, Victoria Gardens Shopping Centre
BROADMEADOWS Sonia Fazio, Broadmeadows Shopping Centre

GLENORCHY John Hansell, Northgate Shopping Centre
HOBART Andrew Warwick, Cat & Fiddle Arcade

BRISBANE
MT OMMANEY Richard Price, Mt Ommaney Shopping Centre
MANGO HILL Michael Van Egdom, Westfield Shoppingtown Northlakes
BRISBANE CITY Cindy Salmon, Myer Centre, Queen Street Mall
TOOMBUL Clare Pell, Westfield Shoppingtown, Nundah
CHERMSIDE Karen Pukulas, Westfield Shoppingtown
UPPER MT GRAVATT Lynne Alexander, Garden City Shopping Centre
INDOOROOPILLY Nerida Hepple, Westfield Shoppingtown,
CAPALABA PARK Tracey Phillips, Capalaba Park Shopping Centre
STRATHPINE Kellie Ann Bowman, Westfield Shoppingtown
BROWNS PLAINS Kaylene Grey, Grand Plaza Shopping Centre
MORAYFIELD Sharnie Stewart, Morayfield Shopping Centre
BROOKSIDE Kerry Camilleri, Brookside Shopping Centre, Mitchelton
CARINDALE Jim Colley, Westfield Shoppingtown
LOGANHOLME Julie Pickup, Logan Hyperdome
BEENLEIGH James Elliott, Beenleigh Marketplace

GOLD COAST
ROBINA Leanne Ray, Robina Town Centre
SOUTHPORT Mark Walshaw, Australia Fair Shopping Centre
BROADBEACH Gerald Adam, Pacific Fair Shopping Centre

TWEED HEADS Jan Ingham, Tweed City Shopping Centre

LISMORE Kylie Robinson, Lismore Shopping Centre

COFFS HARBOUR Scott Covington, Park Beach Plaza

PORT MACQUARIE Penny Rebecchi, Settlement City Shopping Centre

MAITLAND Jo-Anne Nielsen, Green Hills Shopping Centre

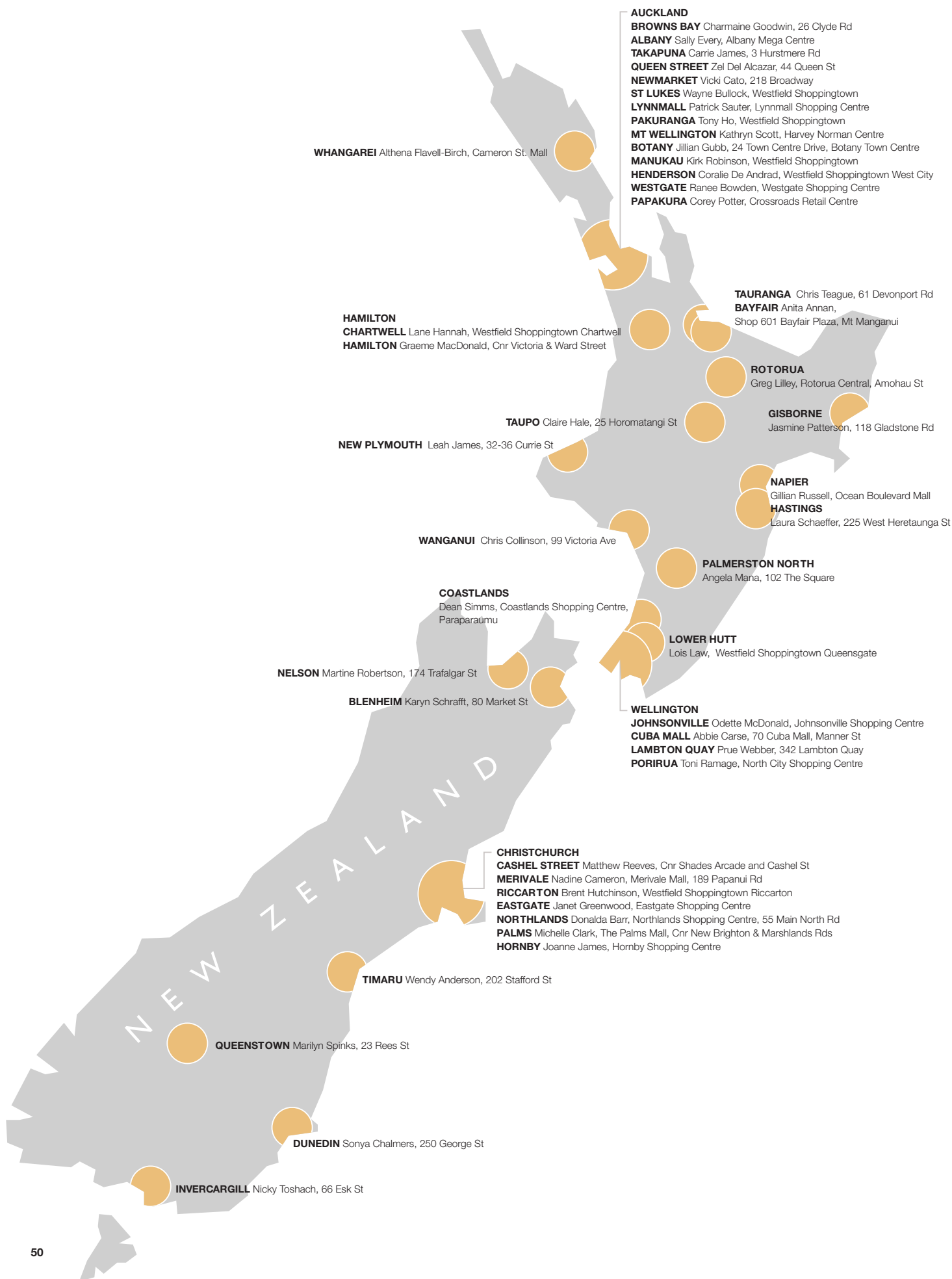
NEWCASTLE
CHARLESTOWN Anthony Matthews, Charlestown Square
JESMOND Paul Rooker, Stockland Mall

ERINA Adam Cranstone, Erina Fair
TUGGERAH Melissa Stewart, Westfield Shoppingtown, Tuggerah

SYDNEY
PARRAMATTA Nadine Kolinac, Westfield Shoppingtown
MIRANDA Julie Galway, Westfield Shoppingtown
ROSELANDS Athena Waters, Roselands Shopping Centre
LIVERPOOL Peta McClure, Westfield Shoppingtown
NORTH RYDE Romel Santos, Macquarie Centre
PENRITH Tim Spreadborough, Penrith Plaza
CASTLE HILL Raj Nair, Castle Towers Shopping Centre
BLACKTOWN Jenny Ryan, Westpoint Shopping Centre
WARRINGAH Dean Lloyd, Warringah Mall Shopping Centre, Brookvale
CAMPBELLTOWN Jody Cremona, The Mall Queen Street
CAMPBELLTOWN Christina Blachnig, Macarthur Square Shopping Centre
WARRIEWOOD Tiffany Sharpe, Warriewood Shopping Centre
BURWOOD Rosemary Duffell, Westfield Shoppingtown
CHATSWOOD Beth Rowell, Westfield Shoppingtown
HORNSBY Marilyn Buttsworth, Westfield Shoppingtown Northgate
HURSTVILLE Ahmad Karnib, Westfield Shoppingtown
EASTGARDENS Josie Montalto, Westfield Shoppingtown
FAIRFIELD Mandy Croft, Fairfield Forum Shopping Centre
MT DRUITT Michelle Le Breton, Markettown
BANKSTOWN Rose Saunders, Bankstown Square

WOLLONGONG
SHELL HARBOUR Samantha Darling, Shell Harbour Square
WARRAWONG Cheryl Delandre, Westfield Shoppingtown
CROWN CENTRAL Jeanette Underwood, Crown Central

STORE Outlets





C A N A D A

MAYFAIR
Jodi Warner, Mayfair Shopping Centre, Victoria, B.C.

LOUGHEED Terese Biermann, Lougheed Town Centre, Burnaby, B.C.
METROTOWN Adam Biermann, Metropolis at Metrotown, Burnaby, B.C.

SEVENOAKS
Nicole Eldridge, Sevenoaks Shopping Centre, Abbotsford, B.C.

NOTICE OF ANNUAL MEETING

Notice is hereby given that the Annual Meeting of Shareholders of Michael Hill International Limited ("the Company") will be held at the Guineas Room, Ellerslie Convention Centre, Auckland on Friday 5 November 2004 at 2pm.

BUSINESS

The business of the meeting will be:

1 FINANCIAL STATEMENTS AND REPORTS

To receive and consider the Annual Report including the Financial Statements and the Auditor's Report for the period ended 30 June 2004.

2 RE-ELECTION OF MURRAY RICHARD DOYLE, GARY JOHN GWYNNE AND RICHARD MICHAEL HILL AS DIRECTORS

To consider, and if thought fit, to re-elect Murray Richard Doyle, Gary John Gwynne and Richard Michael Hill as Directors of the Company by passing the following Ordinary Resolutions:

- a. "That Richard Michael Hill be re-elected as a Director of the Company."
- b. "That Murray Richard Doyle be re-elected as a Director of the Company."
- c. "That Gary John Gwynne be re-elected as a Director of the Company."

See *Explanatory Note*.

3 AUDITORS

To record that the Company's Auditors PriceWaterhouseCoopers are automatically reappointed as auditors pursuant to Section 200 of the Companies Act 1993 and to consider, and if thought fit, to pass the following Ordinary Resolution:

"That the Directors be authorised to fix the remuneration of the auditors for the ensuing year."

4 ADOPTION OF A NEW CONSTITUTION

To consider, and if thought fit, to pass the following Special Resolution:

"That the existing Constitution of the Company be revoked and the Company adopt the new Constitution in the form tabled at the meeting and signed by the Chairman for the purpose of identification."

See *Explanatory Note*.

5 DIRECTORS' REMUNERATION

To consider, and if thought fit, to pass the following Ordinary Resolution setting the maximum level of directors' annual remuneration, which will apply until altered by a further ordinary resolution of shareholders:

"That the maximum amount of annual directors' fees payable to all directors in their capacity as directors shall be \$250,000, until such time as this amount may be altered by a further ordinary resolution of shareholders." See *Explanatory Note*.

In accordance with Listing Rule 9.3.1, no non-executive director nor any of their Associated Persons may vote on this resolution.

6 OTHER BUSINESS

To consider any other ordinary business which may be properly brought before the meeting.

PROXIES

Subject to the voting restrictions set out below, all shareholders are entitled to attend and vote at the meeting or to appoint a proxy to attend and vote in their place. A proxy need not be a shareholder of the Company. Individuals who are disqualified from voting on any resolution are unable to vote on a discretionary proxy.

Enclosed with this Notice of Meeting is a proxy form. For the appointment of a proxy to be valid, the form must be deposited at the registered office of the Company, Third Floor, Michael Hill Building, 25 Rathbone Street, Whangarei, no later than 48 hours before the start of the meeting. Postal voting is not permitted. The Directors offer themselves as proxy to shareholders.

CORPORATE REPRESENTATIVES

A corporation which is a Shareholder may appoint a person to attend the meeting on its behalf in the same manner as that in which it could appoint a proxy.

REQUISITE MAJORITIES AND VOTING

In order for it to be passed, a special resolution requires the affirmative vote of a 75% majority

of those entitled to vote and who vote in person or by proxy and an ordinary resolution requires the affirmative vote of a simple majority of those entitled to vote and who vote in person or by proxy.

The Company does not consider that any of the provisions of the proposed new constitution which shareholders are being asked to adopt have the effect of imposing or removing a restriction on the activities of the Company. Accordingly, shareholders who vote against resolution 4 will not have right to require the Company to purchase their shares. No person is precluded from voting on Resolutions 1 to 4. Non-executive directors and their Associated Persons may not vote on Resolution 5.

By order of the Board of Directors



WK Butler
Secretary
1st October 2004

EXPLANATORY NOTES

RESOLUTION 2 – RE-ELECTION OF RICHARD MICHAEL HILL, MURRAY RICHARD DOYLE AND GARY JOHN GWYNNE AS DIRECTORS

Richard Michael Hill, Murray Richard Doyle and Gary John Gwynne are currently Directors of the Company and retire by rotation in accordance with clause 33.5 of the Company's Constitution. Each Director, being eligible, offers himself for re-election. The Board considers Messrs Doyle and Gwynne to be independent directors.

RESOLUTION 4 – ADOPTION OF A NEW CONSTITUTION

Pursuant to Listing Rule 3.1.1, a listed company's constitution is required to contain certain provisions for the period in which that company is listed. Recent changes to the Listing Rules have changed the provisions which must be contained in the Company's Constitution. There are also opportunities for the Company to improve its Constitution by updating it to reflect other regulatory and legislative changes. For the first time, Listing Rule 3.1.1 now allows a listed company to incorporate the provisions of the Listing Rules by reference, rather than by specifically restating those provisions. Incorporation of the Listing Rules by reference offers a number of clear advantages, and thus the Company proposes taking that approach.

BACKGROUND TO THE NEW CONSTITUTION

Over recent years, the New Zealand Exchange ("NZX") has implemented some significant changes. One of those changes has been to the rules which govern listed companies. These rules set out, amongst other things, how a listed company must be governed, how a listed company can issue and redeem shares, the

types of transactions a listed company can enter into, and how a listed company relates with its shareholders. The changes have largely been the result of international trends and developments, and of moves by NZX to be more responsive to the current business climate. Some of the Listing Rule changes made recently require changes in the Company's Constitution. As noted above, the amendments to the Listing Rules which came into effect in May 2004 permit a company to incorporate those Listing Rules which are required to be included in a listed company's Constitution by reference. The Company proposes to take this approach due to the advantages it offers, namely:

- Avoiding the need to update the Company's Constitution each time any of the Listing Rules required to be incorporated into the Company's Constitution change;
- Allowing the Company to take advantage of any Listing Rule changes without the need to apply for a waiver from the date those changes take effect; and
- Substantially shortening and simplifying the Constitution.

Going forward, the Company believes that the new Constitution tabled for shareholder approval will, if adopted, provide real advantages in terms of savings in unproductive legal costs (in particular, by removing the requirement to regularly update the Constitution) and improved administration. Copies of the proposed Constitution may be viewed on the Company's website at www.michaelhill.com and are available on request from the Company at 20 Kayelene Place, Omokoroa, Tauranga, Attention: Wayne Butler, Company Secretary.

A copy of the Company's existing Constitution can be viewed on the Company's website at www.michaelhill.com and on the Companies Office website at www.companies.govt.nz, can be obtained by writing to the Company at the above address, and may be viewed at 20 Kayelene Place, Omokoroa, Tauranga. A copy of the Listing Rules can be viewed on NZX's website at www.nzx.com NZX, having had the benefit of an independent opinion from Chapman Tripp, has approved the proposed new Constitution.

SUMMARY OF THE MAJOR CHANGES

The adoption of a new Constitution does not change any of the fundamental rights of shareholders. Each share continues to have the right to a vote and, along with each other ordinary share, an equal right to share in all distributions by the Company to its ordinary shareholders whether by way of dividend or distribution of surplus assets on a winding up. The changes are limited, primarily, to comparatively minor amendments to the powers of the Company (particularly as they relate to the issue and buyback of shares), and to changes to corporate governance requirements (many of which are, in practice, already being met by the Company). A summary of the major changes to the Listing Rules which will be incorporated into the Constitution by reference are set out in the following table:

LISTING RULE REFERENCE	PROVISION OF EXISTING CONSTITUTION	SUMMARY OF CHANGE
CHANGES RELATING TO POWERS TO ISSUE AND ACQUIRE SHARES		
Time limits for issuing securities (Listing Rule 7.3.2)	Clause 3.2(a)	The time limits within which issues of securities must be completed have increased to 36 months for issues to employees (previously 12 months) and to 12 months for all other issues (previously 6 months).
Issues under \$5,000 (Listing Rule 7.3.4)	No comparable provision	The Board is now able to make a share issue without shareholder approval if no shareholder is required to pay more than \$5,000 and the total number of shares issued does not exceed 30% of the existing number of fully paid shares. This provision gives the Board slightly more flexibility to raise small additional sums of capital, and might be useful in allowing shareholders with very small holdings to raise their holdings to above the Minimum Holding set out in the Listing Rules.
Issues within 15% limit (Listing Rule 7.3.5)	Clause 3.2(c)	The Board is now able to issue, in any 12 month period, up to 15% of the total number of equity securities on issue without seeking shareholder approval. Previously, the limit was 10%.
Issues of securities to employees (Listing Rule 7.3.6)	Clause 3.2(d)	The limits for issuing new equity securities to employees without seeking shareholder approval have increased to 3% of the total number of equity securities on issue in any 12 month period (previously 2%) and 7% of the total number of equity securities on issue in the five year period immediately preceding the date of issue (previously 5%). Listing Rule 7.3.7A now prohibits the Company repricing or amending the terms of securities issued to directors or employees with shareholder approval except as permitted by the Listing Rules or with the approval of NZX or shareholders.
Buybacks of Equity Securities (Listing Rule 7.6.1)	No comparable provision. Other acquisitions covered by clause 6.	The Company is now able to acquire, in any 12 month period, up to 15% of the total number of equity securities of that class on issue. Previously, the limit under Listing Rule 7.6.1 was 10%, and the Company's Constitution did not contain a provision permitting acquisitions in this manner.
CHANGES RELATING TO POWERS TO ISSUE AND ACQUIRE SHARES		
Board Composition (Listing Rule 3.3.1)	Clause 33.1	Currently, the Company is required to have at least three directors, two of whom must be ordinarily resident in New Zealand. Listing Rule 3.3.1 now also requires the Company to have at least two independent directors. The minimum number of independent directors required would increase if the Company had more than eight directors. The Company currently complies with this requirement, as Messrs Gwynne and Doyle are independent directors. In addition: <ul style="list-style-type: none"> • The Board is required to determine which directors are independent directors before the publication of its annual report each year and after each Annual General Meeting. • When the Board appoints a director, it must determine whether he or she is independent. • Whenever the Board determines independence, it must announce the outcome to NZX. • The Company must make arrangements to require directors to provide sufficient information to the Board to enable determinations to be made.
Procedure for Nominating Directors (Listing Rule 3.3.2)	Clause 33.8	The Company is now required to make an announcement to the market at least three months before the Annual General Meeting of the opening and closing date for any director nominations. The Notice of Meeting is required to state whether nominees would qualify as independent directors.

NOTICE OF ANNUAL MEETING cont.

LISTING RULE REFERENCE	PROVISION OF EXISTING CONSTITUTION	SUMMARY OF CHANGE
Director remuneration and retirement benefits (Listing Rule 3.5)	Clause 36	Shareholders will now be required to approve all retirement benefits for directors, other than for directors who were in office on or before 1 May 2004 and who have continued to hold office. For these directors, payments of up to three years' remuneration can be made without shareholder approval. Shareholder approval is also now required for remuneration as a director of any non-listed subsidiary. Currently, retirement benefits cannot be paid to directors without shareholder approval.
Audit Committee (Listing Rule 3.6)	No comparable provision	The Company is now required to establish an audit committee with at least three members, a majority of whom are to be independent directors, and one of which is required to have an accounting or financial background.
CHANGES RELATING TO APPROVAL FOR TRANSACTIONS		
Threshold for significant transactions (Listing Rule 9.1.1)	Clause 31	Under Listing Rule 9.1.1, shareholders are required to approve significant transactions (generally major acquisitions or disposals). Listing Rule 9.1.1 now states that a transaction only requires approval if its value exceeds 50% of the Company's Average Market Capitalisation (previously, approval was required if the transaction's value exceeded the lesser of 50% of the Company's Average Market Capitalisation or 50% of the gross value of its assets).
Threshold and exemptions for related party transactions (Listing Rule 9.2.1)	Clause 32	Under Listing Rule 9.2.1, shareholders are required to approve material transactions with related parties. Listing Rule 9.2.1 now assesses whether a transaction is "material" by reference only to its percentage value of the company's Average Market Capitalisation (previously, materiality was assessed by reference to the lesser of a specified percentage (0.5% in the case of transactions providing for services and 5% for other transactions) of shareholders' funds and the Company's Average Market Capitalisation). In addition, employment agreements with natural persons who are not directors and transactions of less than \$250,000 no longer require shareholder approval.

In addition, because the new Listing Rules are adopted by reference, and in order to streamline the Constitution and avoid any inconsistency between various documents, several provisions of the existing Constitution will be superseded by different provisions. In the Board's opinion, none of these changes are of material significance.

These provisions include:

- **Director rotation:** Under the Listing Rules and the new Constitution, one third of directors will retire by rotation each year. Currently, clause 33.5 of the Company's Constitution provides that half of the Company's director must retire by rotation each year. In each instance, retiring directors are eligible for re-election.
- **Maximum number of Directors:** Currently, clause 33.1 of the Company's Constitution provides that the Company must not have more than eight directors. The Listing Rules and the new Constitution do not contain that restriction. Notwithstanding this change, there

are currently no plans to increase the size of the Board from the current six directors.

The new Constitution also uses newer, shorter language and avoids much of the duplication of provisions between the existing Constitution and the Act and Listing Rules.

Where any changes are made in the Listing Rules which would affect any of the Listing Rules which are incorporated into the Constitution by reference, those changes are deemed to be incorporated by reference into the Company's Constitution on the date specified by NZX, without the need for shareholders to vote to approve the changes, and without any entitlement for shareholders who would have voted against the change to require the Company to repurchase their shares, to the extent that such a right would have arisen had shareholder been given the opportunity to vote on the changes. That date may be a specific date, or may be the date of expiry of a set period of notice.

Directors' Recommendation

Notwithstanding the fact that the Company is required by the Listing Rules to amend its Constitution, the Board believes that the new Constitution being put to shareholders for approval is a more workable document which offers real advantages going forward. Accordingly, the Board recommends that shareholders vote in favour of Resolution 4.

RESOLUTION 5 – DIRECTORS' REMUNERATION

The directors seek the approval of shareholders to an increase in the maximum aggregate remuneration that is able to be paid to non-executive directors to \$250,000. Executive directors do not receive any additional payment over and above their remuneration received in their capacity as executives.

The current maximum aggregate remuneration is \$215,000. This was set at the Annual Meeting in November 2001. The increase is therefore \$35,000 from the base figure last approved by shareholders in general meeting. For the year ended 30 June 2004, each of the three New Zealand resident non-executive directors was paid at a rate of \$50,000 per annum, and the Australian resident non-executive director was paid at a rate of A\$50,000 per annum. It is proposed that the level of fees will increase from \$50,000 to \$60,000 for the New Zealand resident non-executive directors, and to A\$60,000 for the Australian resident non-executive director. Notwithstanding these proposed rates of remuneration, the approval of director remuneration as an aggregate amount allows the Company to maintain flexibility as to how the total amount of director remuneration should be apportioned amongst the directors.

Since 2001, when the last increase in directors' remuneration was approved, the Company has continued to significantly grow its operations and has performed well against its business objectives. In proposing to increase the directors' fees, the Board has set the figure at a level which it believes is appropriate for an Australasian listed company of this size. The increase proposed also reflects general movements in directors' fees and increased transparency following moves away from the payment of retirement benefits for directors. While the Company will, if Resolution 4 is passed by shareholders, have the ability to pay retirement benefits for directors appointed prior to 1 May 2004 under Listing Rule 3.5.2 which will be incorporated by reference into the Company's constitution (currently all of the Company's directors were appointed before this date), the Company has previously made it clear that its intention is not to make such payments. The Company does not pay extra remuneration to non-executive directors for serving on sub-committees and does not propose changing that policy.